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Trend Analyses and Related Statistics

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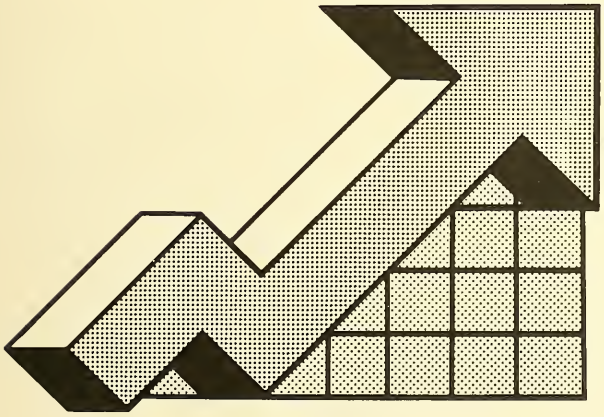

United States, Districts, Regions and Service Centers

Department of the Treasury
Internal Revenue Service
Document 6011 (Rev. 3-86)

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FOREWORD

The IRS Strategic Management System places responsibility on all IRS employees to scan our environment, to identify trends and issues that impact tax administration, and to recommend solutions to issues and problems. Historically, the Service has done a lot of research, trend analysis and data collection. Unfortunately, much of this knowledge and information has not been accessible to Service employees. This edition of Document 6011, "Trend Analyses and Related Statistics," continues an effort I initiated last year to improve the quality of information on tax administration trends and to make it more available to IRS employees, managers and executives.

The goal of this update of Document 6011 has been to describe a problem and analyze associated trends--not necessarily to define a problem and prescribe the solution. It is my hope that this document will help its readers better understand trends and issues related to tax administration. Information flow and a better understanding of underlying trends will lead to solutions from many avenues--from the strategic planning process, from managerial initiatives at national, regional and local levels, and from new tax legislation.

I also want to recognize the contributions that other organizations have made to the document this year. Two articles have been coauthored by staff members who work in the Office of the Assistant Commissioner (Collection), and the research abstracts summarize work that has been completed under four different Assistant Commissioners. We plan to involve more organizations in next year's edition. My hope is that the document will serve as a vehicle to disseminate much of the careful but unpublished analysis completed throughout the Service.

The number of trends with potential impact for tax administration is boundless, but several major trends emerge as more heavily affecting the Service's role in tax administration than others. Many of these trends have been addressed in the various sections of this publication through articles, research abstracts and statistical analyses. Nevertheless, we have by no means identified all relevant trends. Thus, I encourage each of you to send me your ideas on trend areas that have yet to be researched and evaluated for their impact on tax administration. Your ideas and comments will be addressed in subsequent editions of this trend document.

John L. Wedick, Jr.
Assistant Commissioner
(Planning, Finance and Research)

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SECTION I

A Frontline View

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The number of trends or issues with potential impact for tax administration is boundless. The major trends and related issues impacting tax administration have been defined and incorporated into the Strategic Management System. In early 1985, the Assistant Commissioner (Planning, Finance and Research) requested field input into issue identification and trend analysis. The following pages of this section highlight trend areas and related issues that were suggested by field offices for further investigation. These trend areas and related issues are divided into two broad categories: 1) topics addressed by articles published in this edition of Document 6011 and 2) topics to be addressed by articles published in future editions of Document 6011.

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Topics Addressed by Articles Published in This Edition of Document 6011

o **The Effects of Large Economic Cycles on Compliance Rates**

Business cycles may affect individual income tax compliance. On the downside of business cycles, the precipitous fall in income for those employment might render such people unwilling or unable to meet their tax obligations. Is this conjecture true? If so, to what extent is it true? (Regional Commissioner, Mid-Atlantic Region)

o **Cash Businesses**

We should examine the trends in cash businesses and other areas with underground economy potential. (Regional Commissioner, Mid-Atlantic Region)

o **DIF and DIF Related Source Examinations**

The DIF system, which identifies tax returns for examination, should be evaluated with respect to the actual number of returns examined under this procedure. Many posts-of-duty offices have so much priority work that they conduct very few DIF selected return examinations. (District Director, Nashville)

o **Electronic Banking**

How will the increasing level of bank automation affect the ability of bank customers to supply financial documents to IRS? Many banks now charge for documents such as cancelled checks. Also, many transactions are made electronically via telephone with the monthly bank statement as the only record. What is the effect of this on Revenue Agents and other compliance personnel? (District Director, Omaha)

o **Home Computers and Tax Preparation**

The development of low-cost tax preparation software for use on personal computers will provide users with more information on techniques associated with tax reduction. How might this affect compliance? (District Director, St. Louis)

o **The Effect of the Decreasing Number of Small Farms on Tax Administration**

The Service should evaluate the impact of the declining number of small farms on District staffing in farmbelt states. (District Director, St. Louis)

Topics to be Addressed by Articles Published in Future Editions of Document 6011

o **Office Automation**

Effectiveness of office automation strategies is an area worthy of further research, such as comparing IRS national and regional approaches to automating the office with those used in the private sector. (Regional Commissioner, Mid-Atlantic Region)

o **Impacts of Increased Centralization on Noncompliance**

The trend toward decreased general program work in the Examination and Criminal Investigation functions suggests a need to further centralize IRS staffing and to reduce the number of small posts-of-duty and district offices. A study should be undertaken to examine the potential impact this centralization would have on noncompliance. (District Director, Atlanta).

o **Impacts of Payroll and Personnel Policy Restrictions**

Reductions in pay, benefits and promotion opportunity could adversely affect IRS employees' morale and productivity. We should address the issue of the extent to which morale and productivity will be affected by trends in Federal compensation. (District Director, Cincinnati)

o **National DIF Scores**

Can national-level DIF scores and formulas be properly adjusted to reflect variation in regional economic and demographic conditions such as: cost of living; state and local taxes; and service versus industrial employment? (District Director, Cleveland)

o **Increased Use of Barter as a Way of Doing Business**

Will this method of transacting business add to our underground economy? Should additional staffing and resources be devoted to uncover barter transactions, as well as transactions in which services are rendered on a cash-basis only? (District Director, Aberdeen)

SECTION II

Selected Trend Highlights:
Some Broad Trends With Implications For IRS

Workforce Trends

- Loyalty is one of the most important assets which a company can have, yet it never shows up on a balance sheet. Evidence seems to suggest that loyalty is waning at a growing number of companies. One of the problems seems to be that worker loyalty is not reciprocated. Companies such as IBM screen potential employees for loyalty before they are hired and then pursue policies which will reward that loyalty, treating it as an asset whose value will depreciate if not properly maintained. (Wall Street Journal, July 11, 1985)

- Good times for computer professionals. The average starting salary is about $30,000. Senior programmer/analysts can expect a 12-15 percent increase this year. (Business Week, August 19, 1985)

- If given the choice, only 7 percent of information processors would do their work at home. They apparently fear the social alienation this would bring. (J. Naisbitt Trend Letter, August 1985)

- Office automation is leading to a diminished role for clerical staff. Clerical job growth has slowed to 2 percent less than the rate for all employment categories. (The Washington Post, September 6, 1985)

- Only 9 percent of the American workforce see themselves as employed in declining industries. Only 9 percent see demand for their particular skill declining. Among union members, 16 percent say their industry is declining and 20 percent say demand for their particular skill is declining. (Roper Reports, September 1985)

- Of those employees who fear for their future, 6 out of 10 would be interested in job retraining--5 out of 10 would be interested even if it meant relocating. (Roper Reports, September 1985)

- New fields of endeavor have traditionally been of greatest benefit to groups at the bottom of the social ladder. However, in the computer field this has not been the case as white males tend to dominate the most financially rewarding jobs. (Wall Street Journal, September 16, 1985)

- Workers who signed on as unskilled or semiskilled laborers are now finding that they must adjust to new technology which was once kept strictly within the professional ranks. Their jobs are often transformed from a "hands on" nature to operating computer terminals that control the machines which have replaced them. It isn't always easy and many people find the mental and social changes unbearable. (Wall Street Journal, September 16, 1985)

- Students enrolled in computer-related courses:
  1972-73 407,000 (3.4 percent)
  1981-82 1,244,000 (9.8 percent)
  1985-86 1,500,000 (12 percent), estimated
  (Wall Street Journal, September 23, 1985)

- The egalitarian concept of open offices is apparently falling by the wayside as walls get increasingly higher and doors are increasingly in demand. The reason is that the noise and distractions of the open office are getting in the way of productivity. (Wall Street Journal, September 26, 1985)

- A rapidly growing number of companies are investing money to teach employees how to write memos. The emphasis is on succinctness and directness. Embellished or cautious language muddles the main points and causes the reader to lose interest. (Wall Street Journal, October 4, 1985)

- The trend of movement toward a service economy will continue according to a BLS study which predicts that 9 out of every 10 new jobs will be in service industries, with the health and computer industries leading the way with the fastest growth. (Washington Post, November 11, 1985)

- The presence of blacks and women in the labor force is expected to increase. This is attributed to the high birth rate among blacks and the continuing trend towards more working women. By 1995, 20 percent of new jobs will be filled by blacks and 60 percent will be filled by women. (Washington Post, November 11, 1985)

- The growth in salaries of professionals slowed to 5.2 percent in 1984. This is the smallest increase in a decade, yet it is still larger than the 4.3 percent increase for all full-time wage and salary workers. The explanation seems to be the existence of a glut of workers at the low end of the labor market. (Washington Post, November 19, 1985)

- According to a study by the American Society for Training and Development, one in eight American employees receive training in formal courses each year at a cost of $30 billion. The greatest amount of training (46.9 percent) is in specific job-related skills. The next largest area of training is management skills (18.8 percent). (Training and Development Journal, November 1985)

Demographic Trends

- The total population of the United States, the fourth largest country in the world, on April 1, 1980, was 226,545,805 and and on April 1, 1985, it was 237,758,000. (Population Resource Center, "Executive Briefing," September 1985)

- By 2020 annual population growth is expected to fall below 0.4 percent compared to about 1 percent in 1984. (Population Resource Center, "Executive Briefing," September 1985)

- It is estimated that by 2010 there will be 39 million Americans over the age of 65 compared with 29 million today. (Population Resource Center, "Executive Briefing," September 1985)

- The nation's fastest growing age group is that of Americans aged 85 and over. (Population Resource Center, "Executive Briefing," September 1985)

- One-person households increased from 13 percent in 1960 to 27 27 percent in 1983. (Population Resource Center, "Executive Briefing," September 1985)

- Fifty-three percent of all married women are now in the labor force as opposed to less than 25 percent in 1950. (Population Resource Center, "Executive Briefing," September 1985)

- At the onset of the seventies metropolitan area growth slowed and throughout that decade record numbers of Americans migrated to the South and West. Movements from urban to rural area and migration to the South and West are expected to continue. The Mountain states, in particular, are expected to register the fastest growth through the year 2000. (Population Resource Center, "Executive Briefing," September 1985)

- One of the trends affecting changes in household and family composition over the past quarter century has been the increase in the age at which young men and women typically get married. The median age of first marriage rose slowly between 1960 and 1970, but increased dramatically since 1970. In 1985, the median age stood at 25.5 years for men and 23.3 years for women. This represents a 2.3 year increase for men and a 2.5 year increase for women in the median age for marriage during 1985 compared to 1970. (Current Population Reports, Series P-20 No. 402, October 1985)

Trends in Taxpayer Attitudes

- A study by Robert Mason and Lyle D. Calvin concluded that public confidence in the tax system is unrelated to income tax evasion. They found that "both satisfied and dissatisfied taxpayers remain honest because they are afraid of getting caught." (National Tax Journal, December 1984)

- Two-thirds of the public believe that the average American pays too much in taxes. Only 2 percent believe we pay too little. (Cambridge Report, Second Quarter 1985)

- Two-thirds of the American public think that the average taxpayer should pay less than 20 percent of their income in all forms of taxes--federal, state and local. (Cambridge Report, Second Quarter 1985)

- Less than one-fifth of the American public believe that corporations pay too much tax. One-third believe that corporations should pay less than 20 percent. (Cambridge Report, Second Quarter 1985)

- The number of Americans in favor of a "flat" tax is roughly equal to the number opposed. The trend in favor has been going up while the trend in opposition has been going down. (Cambridge Report, Second Quarter 1985)

- Deductions: (in favor of elimination)

  --Mortgage interest on second or vacation homes: 49 percent

  --Consumer interest payments: 43 percent

  --State taxes: 39 percent

  --Property and other local taxes: 36 percent

  --Charitable contributions less than 2 percent of adjusted gross income: 46 percent. (Cambridge Report, Second Quarter 1985)

- Should taxes be raised if the additional proceeds were used exclusively to reduce the budget deficit? Yes--38 percent, No--44 percent. (Cambridge Report, Second Quarter 1985)

Trends in Technology

- According to a report by Electronic Services Unlimited, telecommuters--people who work at home and communicate with their their offices via computers, etc.--work more and produce better quality work. (Business Week, December 17, 1984)

- According to John Imlay, of Management Science America, Inc., 90 percent of today's computing is done at the mainframe level. By 1995, 90 percent will be done at the workstation level. (Financial, Executive] January/February 1985)

- GM is using its clout as a major client with seven large computer manufacturers to develop a new Manufacturing Automation Protocol (MAP) in which all computers may communicate within a single network. They hope this will end the "islands of automation" that presently exist. MAP will be required for all future plants. (Economist, March 2, 1985)

- A continuing study by Arthur D. Little projects that magnetic storage media will dominate the data storage market for the next decade. The reason given is that the technology is tried and true, as well as cheap. The same study predicts that 3.5 inch disks will come to dominate the currently more popular 5.25 inch disks. (Technology Forecasts, September 1985)

- Laser disks will become available as mass storage mediums for PCs by late 1985. For now they will be available in a "read only" format, but by 1987 they should be erasable too. It is estimated that by 1990 capacity will reach 300 million characters at a cost of $275. (Business Week, August 19, 1985)

- The "computer revolution" has rendered itself a misnomer; it is now more appropriately called a "computer evolution." The slowdown can largely be attributed to a reassessment by computer purchasers of the effects of the new technology. Computer technology is no longer being purchased for its own sake. Now the emphasis is on "appropriate technology." (Wall Street Journal, September 16, 1985)

- The historic imbalance between software supply and demand has allowed manufacturers to get away with selling shoddy and often defective products with impunity. Most software packages are sold with no guarantees of performance. (Wall Street Journal, October 2, 1985)

- Several firms have begun to transmit stock price quotations over FM radio. This reduces the float as FM radio signals travel 16 times faster than telephone signals. The quotations are in coded form and are available for a fee to subscribers. (John Naisbitt's Trend Letter, October 31, 1985)

- The deregulation of the telecommunications industry and the emergence of the information age have blurred the distinctions between the telecommunications business and the data processing business. This has locked AT&T and IBM into a competition for the throne in the new information business. Where will this competition lead and what will be its fruits? Here are the three main technological developments as seen by the men in charge of research at each company:

  --Ralph Gomory of IBM: 1) Even more miniturization of components which will bring more of the traditional benefits--lower manufacturing costs, greater speed, more power. 2) Parallel processing--a process by which large problems are broken down into small problems which are solved independently by separate computers. 3) Better user interfaces--less reliance on keyboards, better and more easy-to-understand software.

  --Ian Ross of Bell Labs: 1) Miniturization--foresees by 1990 PCs as powerful as today's mainframes. 2) Photonics--use of light to encode data for transmission. (AT&T has already transmitted 2 billion bits of information 80 miles on one optical fiber in less than one second. This much information takes up the whole Encyclopedia Britannica. 3) Software--"Hardware productivity has increased several thousand-fold in the past two decades while software productivity has barely doubled." Developing software which will write software will become a priority to increase productivity in this area. (Economist, November 23-29, 1985)

- "Smartcards" containing their own microprocessors and memory will offer a more versatile and secure alternative to credit cards. Eventually such cards may store finger prints, retina prints, or the owner's signature. Such cards will be useful not only for charging purchases, but also for crediting accounts, providing health information and for computer security. (Scientific American, November 1985)

SECTION III

Trend Articles

The views expressed in the articles contained in this document represent the opinions and conclusions of those assigned to their preparation. Such views do not necessarily represent the position of the Internal Revenue Service.

Trends in Voluntary Compliance of Taxpayers Filing Individual Tax Returns

by
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****

Results from the recently completed Individual Returns Filed TCMP Survey (TY 1982 returns) indicate a small increase in the overall voluntary compliance level for tax year 1982 over the 1979 and 1976 levels. TCMP data aggregated by examination class and by the components of the individual income tax return (total income, statutory adjustments, itemized deductions and exemptions) are presented in this article to aid in the analysis of compliance change. Although relative compliance as measured by TCMP has risen, the aggregate dollar amount of unreported tax has also risen. In addition, compliance actually declined for many classes of taxpayers who had types of income that were not subject to information reporting (e.g., compliance for total business returns fell in 1982). Therefore, while there has been an increase in overall compliance, problems that can only be addressed through enforcement efforts continue to exist for the Service.

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Background [1/]

The Taxpayer Compliance Measurement Program (TCMP) was developed in 1962 to measure taxpayer compliance by comparing what a random sample of taxpayers report on their returns with what an examination determines should have been reported on those same returns. An Individual Returns Filed TCMP Survey reveals the total tax that would have been recommended, following an examination, for all taxpayers who filed returns. While TCMP provides evaluative and planning data, it also is an integral part of the enforcement program designed to determine the correct tax liability of each taxpayer. It represents the only IRS enforcement program in which taxpayers are randomly selected for examination.

The first Individual Returns Filed Survey was designed to measure the accuracy of returns filed by subjecting a random sample of 92,000 tax year (TY) 1963 returns to a thorough examination. The eighth Individual Returns Filed Survey, which was completed in the fall of 1985, consisted of a random sample of 50,000 TY 1982 returns filed in 1983.

Over the years, the various Individual TCMP Surveys have provided the Service with data used in the development and maintenance of Discriminant Function (DIF) formulas. These formulas are developed

following each TCMP Survey and are the basis for the Service's computerized examination selection system. While this is one major use of TCMP, there are other significant uses as well. TCMP data provide reliable estimates of taxpayer compliance on returns filed, at least to the degree comprehensive examinations can make such determinations. The ongoing Individual Surveys also provide reliable periodic data which serve as a basis for longitudinal analyses conducted by both the Service and highly respected academic researchers.

Additionally, TCMP data, which reside on computer files stored at the IRS Data Center in Detroit, are the primary tools used in the development of IRS estimates of the U.S. tax gap.[2/] These data are also utilized in resource allocation models and thereby justify Congressional budget requests for additional resources. These files are also accessed and manipulated by IRS researchers as a basis for solving problems, formulating legislative proposals and supporting policy decisions. Hence, these many and varied uses of TCMP generated data clearly show the value of this program to the IRS in successfully achieving the mission of the Service.

Voluntary Compliance Levels

Preliminary analysis of the results of the most recent TCMP Survey of individual income tax returns filed has recently been completed. This analysis reveals a small increase in the overall voluntary compliance level (VCL) for tax year 1982 over the 1979 and 1976 levels. Although relative compliance (tax voluntarily reported as a proportion of tax that should have been reported) as measured by TCMP has risen, the aggregate dollar amount of unreported tax has also risen (see Table 1.). This has occurred because the tax reported base has increased at a more rapid rate than the tax adjustments. In addition, compliance actually declined for many classes of taxpayers who had types of income that were not subject to information reporting (e.g., the VCL for total business returns fell in 1982). Therefore, while there has been an increase in overall compliance, problems that can only be addressed through enforcement efforts continue to exist.

Table 1. Individual Income Tax Voluntary Compliance Levels and Estimated Tax Increases (as Measured by TCMP)

Tax Year	VCL (Percent)	Estimated Tax Increase (Billions)
1965	94.3	$ 3.088
1969	93.1	$ 6.430
1973	93.0	$ 8.581
1976	91.7	$13.095
1979	91.0	$21.569
1982	91.8	$24.840

When these data are analyzed by income size, it is apparent that the overall increase in compliance from 1979 to 1982 was not uniformly distributed over all examination classes. In fact, Table 2. shows that VCL's for only four of the twelve examination classes increased from 1979 to 1982, and that three of those four were the highest income classes (classes 6, 9 and 12). The remaining four business classes (classes 7, 8, 10 and 11) actually experienced significant declines in compliance.

Several factors were explored in an attempt to explain the primary reasons underlying the overall increase in compliance. These factors include: (a) less progressive tax rates resulting from the Economic Recovery Tax Act (ERTA) of 1981; (b) the redistribution of taxpayers into traditionally high compliance examination classes; (c) changes in the quality and depth of the TCMP examinations between 1979 and 1982; and, (d) changes in the mix of income earned by taxpayers in 1979 versus 1982.

Upon completion of this analysis, it was found that the redistribution of taxpayers across examination classes accounts for almost all of the increase in VCL between 1979 and 1982. Three examination classes (classes 3, 5, and 6) had higher than average VCL's in both 1979 and 1982. In 1979, approximately 41 percent of the returns filed fell into one of these three classes. By 1982, however, that proportion increased to 50 percent. Even though VCL's in only four of the twelve examination classes actually increased, the effect of these increases on the overall VCL was roughly cancelled by decreases in the other eight classes. It was the shift of taxpayers among examination classes; specifically, the shift into these three high compliance classes, that provided the impetus for the overall increase in compliance.

While the motivational incentives of the lower tax rates resulting from ERTA on taxpayers' willingness to comply was not established empirically, three of the four examination classes with increased VCL's are the high income classes. Taxpayers within these classes received the largest tax rate reductions. The impact of the other factors which were studied on the change in the overall VCL was negligible.

Presently, it is not known whether the improvement in compliance is temporary or if it represents a true turning point in taxpayer behavior. The next Individual Returns Filed Survey, which will examine the accuracy of 1985 individual returns filed in 1986, will be available for analysis in the fall of 1988.

Table 2. Voluntary Compliance Levels by Examination Class*

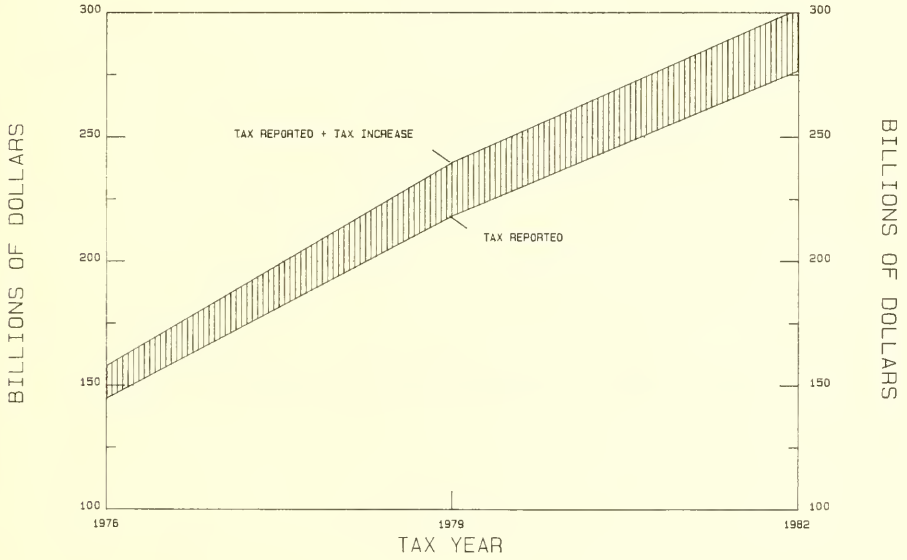
Examination Classes[3]	Tax Year 1976 (Percent)	1979 (Percent)	1982 (Percent)
Grand Total	91.7	91.0 [4]	91.8
Nonbusiness (Total Positive Income)	93.7	93.0	93.4
1) TPI Under $10,000, 1040A Type	90.4	86.1	85.9
2) TPI Under $10,000, Non-1040A Type	83.4	72.8	73.2
3) TPI $10,000 - Under $25,000, Simple Type	97.2	95.1	94.4
4) TPI $10,000 - Under $25,000, Complex Type	92.3	88.5	87.4
5) TPI $25,000 - Under $50,000	94.8	94.7	94.4
6) TPI $50,000 and Over	92.7	92.9	93.9
Business (Total Gross Receipts)	77.2	74.7	73.7
7) Schedule C TGR, Under $25,000	72.9	66.3	64.3
8) Schedule C TGR, $25,000 - Under $100,000	81.5	76.0	72.4
9) Schedule C TGR, $100,000 and Over,	78.8	75.0	75.7
10) Schedule F TGR, Under $25,000	72.6	70.4	67.3
11) Schedule F TGR, $25,000 - Under $100,000	77.6	76.4	74.9
12) Schedule F TGR, $100,000 and Over	59.3 [5]	78.0	80.2

* The TPI class structure was not used for tax years 1965, 1969, and 1973; therefore, only grand totals are available for those years. The overall voluntary compliance levels for those years are 94.3, 93.1, and 93.0 percent, respectively.

Figure 1. shows that between 1976 and 1979, the percentage growth in the tax increase measurement, which is simply the difference between what taxpayers report as their tax liability and what should have been reported as their tax liability, was more steep than the percentage growth in tax reported. This resulted in the decline in the VCL from 91.7 percent in 1976, to 91.0 percent in 1979.

However, while the amount of tax reported increased by 26.8 percent between 1979 and 1982, tax increase rose by only 15.2 percent, causing a rise in the VCL during this period. Coincidentally, inflation from 1979 to 1982, as measured by the Personal Consumption Expenditure (PCE) deflator, also totalled 26.8 percent.[6] Therefore, while there was no inflation adjusted growth in the amount of tax reported between 1979 and 1982, tax increase actually **declined** by 9.2 percent after adjusting for inflation.

Figure 1. Tax Increase and Tax Reported Data Gathered from the 1976, 1979 and 1982 Individual Returns TCMP Surveys



The Components of Compliance

The four major components of the individual return are income, adjustments, deductions and exemptions. Since the second Individual Returns Survey in 1965, TCMP reporting change, which is simply the difference between what taxpayers report on their returns (per return) and what should have been reported (per exam), has risen from $15.5 billion to $86.3 billion for the four components. Figures 2. and 3., which track these components of reporting change in both dollar and

percentage terms, and Tables 3. and 4., which present selected items included in these four components, clearly reveal the pockets of noncompliant areas that the Service has and will continue to encounter. These figures and tables will be referenced throughout the remainder of this section.

Figure 2. Dollar Amount of TCMP Reporting Change by Statutory Adjustments, Exemptions, Itemized Deductions and Total Income

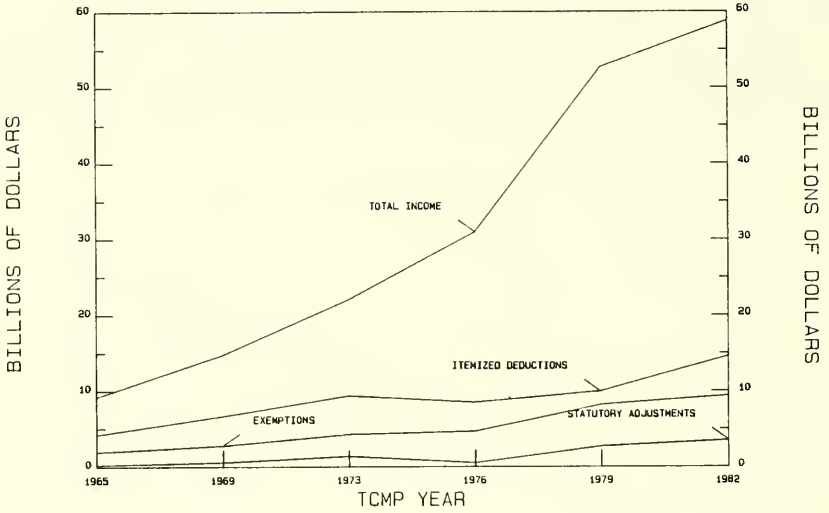


Figure 3. Percentage of TCMP Reporting Change Associated with Statutory Adjustments, Itemized Deductions, Exemptions and Total Income

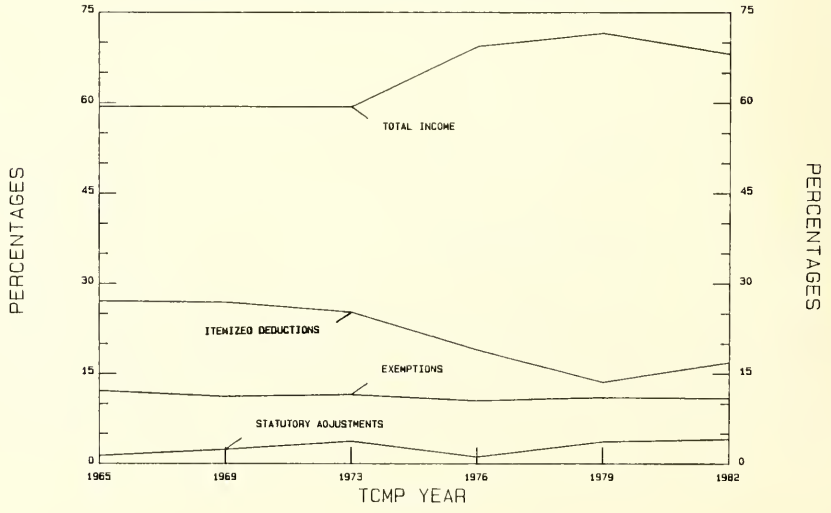


Table 3. Voluntary Reporting Percentages Gathered from the 1965, 1969, 1973, 1976, 1979 and 1982 Individual Returns Surveys

	1965 VRP	1969 VRP	1973 VRP	1976 VRP	1979 VRP	1982 VRP
TOTAL INCOME	97.9	97.6	97.4	97.1	96.5	96.9
WAGES	99.7	100.0	99.8	99.9	99.7	99.9
OTHER	91.2	88.4	87.8	86.7	84.5	86.4
INT & DIV	98.1	97.8	99.2	97.0	95.5	96.9
SCHEDULE C	87.8	82.9	81.4	80.6	75.8	67.6
FORM 1065	(a)	89.6	84.8	80.3	77.9	30.3
FORM 1120S	(a)	90.9	81.5	54.5	64.1	N.A.
SCHEDULE F	75.6	63.3	69.7	49.3	34.7	N.A.
STATUTORY ADJUSTMENTS	95.0	112.0	115.2	103.6	113.4	106.3
BUSINESS EXPENSES	93.8	114.7	126.8	121.3	124.4	129.4
DEDUCTIONS	102.6	105.8	103.3	102.0	(a)	(a)
STANDARD	95.1	92.3	95.3	96.7	(a)	(a)
ITEMIZED	109.5	109.1	109.7	106.9	105.8	105.5
MEDICAL	113.6	114.3	120.0	116.0	117.1	113.0
TAXES	105.4	103.6	104.8	103.8	102.4	102.4
INTEREST	104.6	104.9	104.3	101.9	102.5	103.0
CONTRI-BUTIONS	113.2	114.7	113.2	111.6	109.0	110.0
OTHER	142.9	131.7	135.8	129.1	129.9	123.0
EXEMPTIONS	101.7	102.4	102.8	103.1	103.9	104.4
CHILDREN AT HOME	104.1	105.5	107.6	108.3	111.2	113.3

(a) Data not available
N.A. VRP's were not calculated because of negative numbers

Table 4. Per Return and Per Exam Dollar Amounts Gathered from the 1965, 1969, 1973, 1976, 1979 and 1982 Individual Returns TCMP Surveys

	1965 PER RETURN	1965 PER EXAM	1965 DIFFERENCE	1969 PER RETURN	1969 PER EXAM	1969 DIFFERENCE	1973 PER RETURN	1973 PER EXAM	1973 DIFFERENCE	1976 PER RETURN	1976 PER EXAM	1976 DIFFERENCE	1979 PER RETURN	1979 PER EXAM	1979 DIFFERENCE	1982 PER RETURN	1982 PER EXAM	1982 DIFFERENCE
TOTAL INCOME	429.7	438.9	-9.2	598.3	613.1	-14.8	836.6	858.7	-22.1	1054.3	1085.3	-31.0	1461.6	1514.3	-52.7	1853.4	1912.2	-58.8
WAGES	341.1	342.2	-1.1	484.6	484.5	0.1	685.0	686.1	-1.1	858.3	859.3	-1.0	1193.7	1197.2	-3.5	1493.0	1494.8	-1.8
OTHER	88.6	97.2	-8.6	113.7	128.6	-14.9	151.6	172.6	-21.0	196.0	226.1	-30.1	267.9	317.1	-49.2	360.4	417.3	-56.9
INT & DIV	25.3	25.8	-0.5	35.2	36.0	-0.8	51.1	51.5	-0.4	74.7	77.0	-2.3	104.9	109.8	-4.9	204.2	210.7	-6.5
SCHEDULE C	25.3	28.8	-3.5	31.5	38.0	-6.5	38.9	47.8	-8.9	45.4	56.3	-10.9	56.9	75.1	-18.2	50.0	74.0	-24.0
FORM 1065	(a)	(a)	(a)	12.0	13.4	-1.4	11.7	13.8	-2.1	12.2	15.2	-3.0	12.7	16.3	-3.6	1.0	3.3	-2.3
FORM 1120S	(a)	(a)	(a)	2.0	2.2	-0.2	2.2	2.7	-0.5	1.8	3.3	-1.5	2.5	3.9	-1.4	-3.0	-2.4	-0.6
SCHEDULE F	3.4	4.5	-1.1	3.1	4.9	-1.8	6.9	9.9	-3.0	3.5	7.1	-3.6	2.6	7.5	-4.9	-10.4	-5.4	-5.0
STATUTORY ADJUSTMENTS	3.8	4.0	-0.2	5.6	5.0	0.6	10.6	9.2	1.4	14.5	14.0	0.5	22.9	20.2	2.7	60.5	57.0	3.5
BUSINESS EXPENSES	3.0	3.2	-0.2	3.9	3.4	0.5	7.1	5.6	1.5	7.4	6.1	1.3	10.7	8.6	2.1	14.1	10.9	3.2
DEDUCTIONS	86.9	84.7	2.2	96.9	91.6	5.3	179.9	174.1	5.8	243.3	238.6	4.7	(a)	(a)	(a)	(a)	(a)	(a)
STANDARD	38.5	40.5	-2.0	16.7	18.1	-1.4	73.4	77.0	-3.6	111.1	114.9	-3.8	(a)	(a)	(a)	(a)	(a)	(a)
ITEMIZED	48.4	44.2	4.2	80.2	73.5	6.7	106.5	97.1	9.4	132.2	123.7	8.5	181.4	171.4	10.0	281.6	267.0	14.6
MEDICAL	7.5	6.6	0.9	9.6	8.4	1.2	10.8	9.0	1.8	12.3	10.6	1.7	12.3	10.5	1.8	22.6	20.0	2.6
TAXES	15.6	14.8	0.8	28.7	27.7	1.0	39.4	37.6	1.8	49.1	47.3	1.8	59.6	58.2	1.4	85.9	83.9	2.0
INTEREST	13.7	13.1	0.6	21.5	20.5	1.0	31.6	30.3	1.3	43.4	42.6	0.8	73.7	71.9	1.8	121.3	117.8	3.5
CONTRI-BUTIONS	8.6	7.6	1.0	12.5	10.9	1.6	13.7	12.1	1.6	16.3	14.6	1.7	21.9	20.1	1.8	33.1	30.1	3.0
OTHER	3.0	2.1	0.9	7.9	6.0	1.9	11.0	8.1	2.9	11.1	8.6	2.5	13.9	10.7	3.2	18.7	15.2	3.5
EXEMPTIONS	112.4	110.5	1.9	121.0	118.2	2.8	157.5	153.2	4.3	157.4	152.7	4.7	218.7	210.5	8.2	222.6	213.2	9.4
CHILDREN AT HOME	40.8	39.2	1.6	42.3	40.1	2.2	53.8	50.0	3.8	50.9	47.0	3.9	67.5	60.7	6.8	68.1	60.1	8.0

(a) Data not readily available
Note: Data rounded to billions

Total Income

Noncompliance in the reporting of income continues to represent the largest component of tax evasion in the U.S. Unreported income, as measured by TCMP, has grown from $9.2 billion in 1965 to $58.8 billion in 1982 (see Table 4.). Although the amount of unreported income has consistently trended upward since 1965, the unprecedented increase from 1976 to 1979 was due principally to large amounts of unreported Schedule C income and the expansion of the Information Return Program (IRP) to include processing of W-2, W-2P and other documents in 1978. This phase of IRP enhanced the Service's ability to detect unreported income. It appears, however, that the amount of unreported income uncovered in the 1979 Survey may have been an aberration. This is evidenced by the fact that the rate of growth in unreported income from 1979 to 1982 is very similar to the average growth rate exhibited between 1965 and 1976 (See Figure 2.).

Equally compelling is the fact that 68 cents of every dollar of TCMP reporting change in 1982 was unreported income. This is compared to just 59 cents in 1973. Since 1973, the percentage of total TCMP reporting change associated with total income has generally trended upward (see Figure 3.). However, compliance in the reporting of wages, interest and dividends, as measured by the voluntary reporting percentage (VRP), has remained relatively high.[17] Tables 3. and 4. show that the problems of income noncompliance are concentrated in four specific areas: (1) Schedule C (non-farm business) income; (2) Schedule F (farm business) income; (3) Form 1065 (partnership) income; and, (4) Form 1120S (Subchapter S corporation) income. These types of income, for the most part, are not subject to IRP processing.

The amount of Schedule C income voluntarily reported has consistently deteriorated from 88 cents on the dollar in 1965 to 68 cents in 1982 (see Table 3.). Although the amount of unreported Schedule F income has also consistently risen over this same time period, the magnitude of the problem is only one-fifth as great. Table 4. shows that the amount of unreported income in the Schedule C area has grown from $3.5 billion in 1965 to $24.0 billion in 1982, while noncompliance by Schedule F taxpayers has risen from $1.1 billion to $5.0 billion over the same time period.

Noncompliance in the Schedule C and F areas has been a longtime concern of the Service. However, the most recent problems that face the IRS are the overstatement and/or authenticity of partnership and Form 1120S corporation net losses. This may be linked to the proliferation of tax shelters in the U.S. over the past five years.

Table 4. points to the fact that income reported from Forms 1065 declined from $12.7 billion in 1979 to a mere $1.0 billion in 1982. Compounding the problem is the fact that the amount of reported income from Form 1120S corporations has declined from approximately $2.1 billion, the average from all previous TCMP Surveys, to negative $3.0 billion dollars in 1982.

To combat noncompliance in this area, the IRS has developed a number of operational programs. Concurrent with these programs, the Service will, for the first time, conduct a Form 1120S TCMP Survey over the next three years. In addition, a Form 1065 TCMP Survey has just been completed. Data gathered from these TCMP Surveys will be utilized in an effort to measure total compliance and the major components of noncompliance in the Forms 1065 and 1120S areas. These data will also be used to develop improved systems to select returns for examination.

Statutory Adjustments (Adjustments to Income)

There has been an upward trend in the amount of noncompliance in the statutory adjustments area since 1976. At that time, only $0.5 billion, or 1.1 percent of the total dollar amount of TCMP reporting change was attributable to statutory adjustments. The results of the 1982 Survey indicate that the reporting change in this area has grown to $3.5 billion, or 4.1 percent of the total (see Figures 2. and 3.). While the dollar amount of noncompliance in this area has been increasing, the 1982 VRP improved significantly compared to 1979 (see Table 3.). This is principally due to the fact that provisions in the Economic Recovery Tax Act (ERTA) of 1981, namely the adjustment for married couples when both work and the liberalization of the Individual Retirement Account (IRA) rules, caused the dollar amount of statutory adjustments for 1982 to approximately triple compared to 1979 (see Table 4.).

The inclusion of the two worker married couple and IRA adjustments apparently tempered the effects of the worsening condition of noncompliance in the business expenses adjustment. Compliance in this area, which has steadily declined since 1976, continues to be the driving force behind noncompliance in the entire statutory adjustments area. This is evidenced by the fact that the TCMP reporting change for business expenses has grown from $1.3 billion in 1976 to $3.2 billion in 1982 and that the VRP has consistently deteriorated. TCMP reporting change for the entire statutory adjustments area was only $3.5 billion in 1982. The result of this compliance problem is that 29.4 cents of every dollar of business expenses claimed by individuals in 1982 was disallowed by the Service.

Itemized Deductions

In the past, noncompliance in the itemized deductions area was perceived as a major problem. The following facts, however, appear to refute that perception: (a) since 1965, the dollar amount of noncompliance in this area has grown at a slightly quicker pace (350 percent) than the rate of inflation (270 percent); hence, there has been little inflation adjusted growth; (b) since 1973, the VRP has steadily improved to the point where only 5.5 cents of every dollar claimed as an itemized deduction was disallowed; and, (c) although it did increase from 1979 to 1982, the percentage of total TCMP reporting change associated with itemized deductions has generally trended

downward since 1973 (see Figure 3.). In addition, of the four major types of itemized deductions noted in Tables 3. and 4., only the interest deduction has exhibited signs of trending toward noncompliance. Since 1973, the VRP's for the medical, tax and contribution deductions have all generally trended toward higher compliance.

Exemptions

While the percentage of total TCMP reporting change associated with exemptions has remained relatively constant since 1965, the dollar amount of reporting change has grown almost five fold (see Figures 2. and 3.). This rate of growth is just under twice that of the 1965-1982 rate of inflation. Tables 3. and 4. reveal that compliance in this area has consistently deteriorated since 1965, both in dollar and VRP terms. These tables also point to the fact that the improper claiming of exemptions for children living at home is the clear impetus behind the general compliance problem in the exemption area.

Several hypotheses can be advanced to explain this compliance problem. Included among these are: the ever increasing cumulative number of divorces and other single parent situations in the U.S. and the 16.9 percent increase in the number of births reported in the U.S. from 1976 to 1982.[8/] Whatever the reasons, the fact remains that the number of improper exemptions claimed for children living at home has increased from 2.7 million in 1965 to 8.0 million in 1982.

Conclusion

While there has been a small increase in the overall compliance of U.S. individual return taxpayers, compliance levels actually increased in only four of the twelve examination classes. Presently, it is unclear whether these data are an aberration or a true reversal of the downward trend in compliance which had been exhibited in the U.S. from 1965 to 1979.

Analysis of the most recent TCMP data points to the fact that unreported income in the Schedule C and Schedule F areas continue to be a major problem for the Service. These data also reveal other areas of noncompliance that the IRS must effectively address. These other areas include: problem Forms 1065 and 1120S (particularly abusive tax shelters), overstated business expenses, and erroneous exemptions claimed for children living at home.

Notes and References

1/ Much of the Background section was taken from the Taxpayer Compliance Measurement Program Handbook, U.S. Department of Treasury, Internal Revenue Service Document 6457, Revised September 1984, pp. 1-3.

2/ For a detailed treatment of this subject, see Income Tax Compliance Research, Estimates for 1973-1981, U.S. Department of the Treasury, Internal Revenue Service, July 1983.

3/ Total Positive Income (TPI) is the sum of all income amounts greater then zero; i.e., excluding loss amounts. Total Gross Receipts (TGR) is the sum of all receipts on business and farm tax return schedules.

4/ The previously published VCL for 1979 was 90.8 percent. However, an adjustment was made as a result of errors uncovered through the availability of microfiche copies of returns and workpapers.

5/ Two returns in Western Region accounted for over one-half of the weighted tax increase in this class. If these two returns were eliminated, the VCL would have been 75.6 percent.

6/ Historical data through 1984 for the PCE deflator were developed by the Bureau of Economic Analysis. The 1985 estimate was obtained from Data Resources Inc., June 1985.

7/ VRP or Voluntary Reporting Percentage is defined as:

$$\frac{\text{dollar amount reported}}{\text{dollar amount that should have been reported}}$$

8/ Current Population Reports, Population Profile of the United States: 1982, U.S. Department of Commerce, Bureau of Census, December 1983, p. 16.

Regional Trends in Individual Voluntary Compliance Levels for 1965-1982

by
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Based on individual income tax results, as measured by the Taxpayer Compliance Measurement Program (TCMP) from 1965 - 1982, regional voluntary compliance levels (VCL's) exhibit consistency over the years, with the same four regions above the national average and the remaining three regions consistently below the average. In addition, another pattern has emerged--those regions with the lowest compliance levels, located in the Sunbelt and the West, are also the ones with the highest growth in tax reported.

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Voluntary Compliance Level (VCL)

The VCL is calculated by dividing the total amount of tax dollars and penalties reported by the sum of tax dollars and penalties reported and tax increase and penalties recommended by the Examination function. The result is then converted to a percentage. It should be noted that prior to the 1976 survey the VCL was calculated using absolute tax change as a component rather than tax increase as currently defined. Therefore, adjustments were made in the VCL calculation for the earlier surveys to be sure that all VCL calculations were consistent. Table 1. presents VCLs by region from 1965 to 1982. These data are displayed graphically in Figure 1., illustrating the differential in compliance levels by region from the national average. For 1982 returns, five of the seven regions exhibited an increase in compliance. The regional boundaries for all cycles are those existing prior to the regional realignment of 1984.

Figure 1. also shows that the four regions with the highest VCLs, which remained consistently above the national average, in order of descent were: Central, Mid-Atlantic, Midwest and North Atlantic. They remained in the same order in 1982 as in 1965. The three regions with the lowest VCLs, which remained consistently below the national average, in order of descent in 1965 were: Western, Southwest and Southeast. They remained the lowest through all six surveys although reversing the order of descent in 1982, with Southeast and Western changing places.

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* All references are to tax years, starting with tax year 1965 returns filed in 1966.

Growth in Tax Increase and Tax Reported: Effect on VCL

The pattern of growth in tax increases and tax reported that has emerged over the 17-year span from 1965-1982 shows that the highest relative growth has been in the Sunbelt regions and the West. However, the proportion was not the same for both these VCL components; the rate of tax increase exceeded the growth rate of tax reported.

Figures 2. and 3. illustrate this growth pattern in different ways for the different components. In Figure 2., the growth in tax increase is shown by comparing data from the 1965 and 1982 Surveys. The combined areas of the Southwest, Southeast and Western Regions have grown from 42.5 percent of the total tax increase for 1965 to 54.5 percent of the total in 1982. The remaining four regions all show decreases in their respective proportions of tax increase from 1965 to 1982.

In Figure 3., the average annual growth of tax reported is presented for 1965 and 1982. The regions with the highest growth during this period, in order of descent, are the same three regions identified in Figure 2.: Southwest, Southeast and Western. The remaining four regions exhibited a much smaller growth rate.

Figure 4. illustrates that the regions with the lowest voluntary compliance--in this case below the national average (see Figure 1.)--are the same regions that exhibited the highest growth in tax increase and tax reported: Southeast and Western (see Figures 2. and 3.). This relationship affects the tax gap.

The tax gap, or the difference in dollars between the amount of tax actually payed by taxpayers and the amount of tax taxpayers should have payed, is determined by several factors. Included among these factors are the size of the tax base and the compliance level. Thus, even if compliance levels remained unchanged, the tax gap would increase absolutely as the tax base increased. The portion of the tax gap which is measured by the Individual TCMP Surveys is exacerbated by the fact that compliance is lowest in those regions with the largest tax base. These regions also happen to have the highest growth rate.

The TCMP Sample

TCMP surveys provide the primary means of measuring overall taxpayer compliance with reporting requirements. Data gathered from the Individual Returns Filed Surveys provide the statistical basis for this paper. The most current survey, which consisted of a sample of 50,000 TY 1982 returns filed in 1983, was completed in the fall of 1985. The Individual Returns Surveys are based upon stratified random samples. The sample is designed to achieve statistical precision on the amount of tax change by

Table 1. Voluntary Compliance Levels*, by Region, for TCMP Years 1965 to 1982**

TCMP Year	National	South-east	Midwest	Central	South-west	North Atlantic	Mid-Atlantic	Western
1965	94.3	92.2	94.6	95.7	92.7	94.4	95.2	94.0
1969	93.1	90.6	93.5	95.2	91.8	93.9	94.4	91.4
1973	93.0	90.2	93.8	94.8	92.2	92.9	94.9	90.6
1976	91.7	89.9	93.6	93.3	91.5	93.2	94.0	90.4
1979	91.0***	88.7	91.3	94.0	89.9	93.2	91.7	88.6
1982	91.8	91.0	93.2	93.8	90.7	92.1	93.4	89.3
Weighted Average VCL	92.1	90.2	93.0	94.2	90.9	93.0	93.5	89.9

* Voluntary Compliance Level (VCL) = $\frac{\text{tax reported}}{\text{tax reported + recommended tax increase}} \times 100\%$

** TCMP surveys conducted for tax years 1963 and 1971 are not presented since the 1963 survey was the first survey and is of questionable accuracy and the 1971 survey covered only selected audit classes.

*** IRP information was available to examiners starting with the TCMP survey for 1979. This enabled them to uncover additional unreported income which would lower the VCL. If the 1976 VCL were adjusted to compensate for non-availability of IRP, we estimate the VCL would be 91.7. No such adjustments were made for the previous surveys

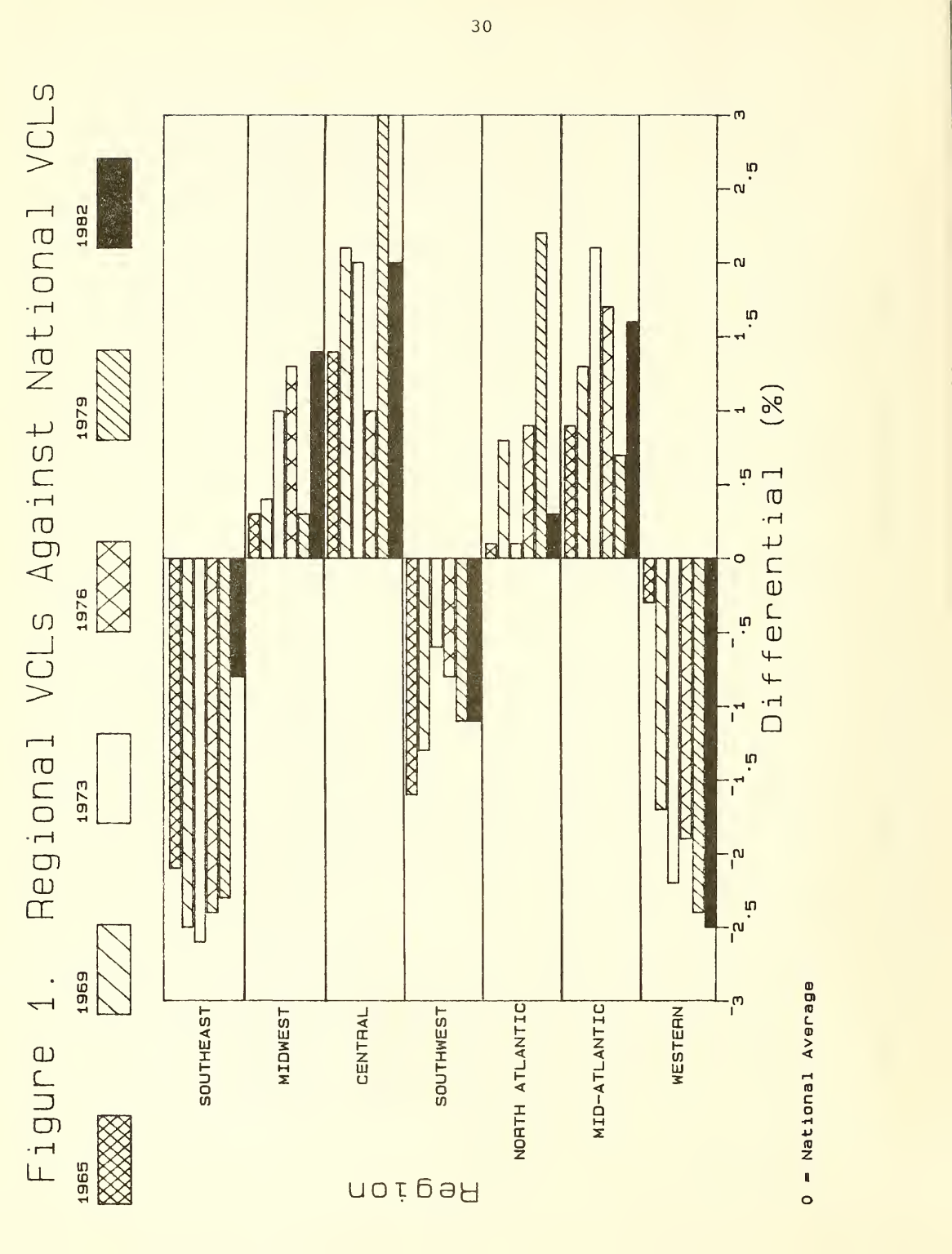


Figure 1. Regional VCLs Against National VCLs
1965
1969
1973
1976
1979
1982
SOUTHEAST
MIDWEST
CENTRAL
SOUTHWEST
NORTH ATLANTIC
MID-ATLANTIC
WESTERN
Region
-3
-2.5
-2
-1.5
-1
-.5
0
.5
1
1.5
2
2.5
3
Differential (%)
0 = National Average

Figure 2. Tax Increases Recommended by Examination

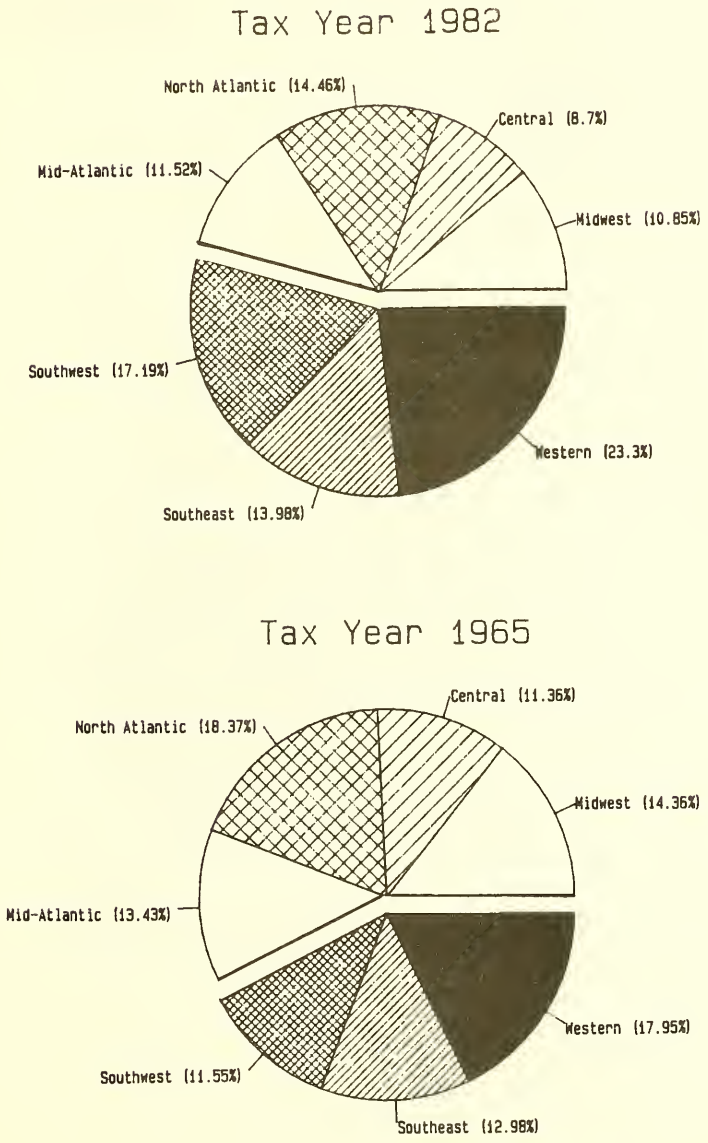


Figure 3. Average Annual Growth of Individual Tax Reported by Region, Measured by TCMP 1965 - 1982

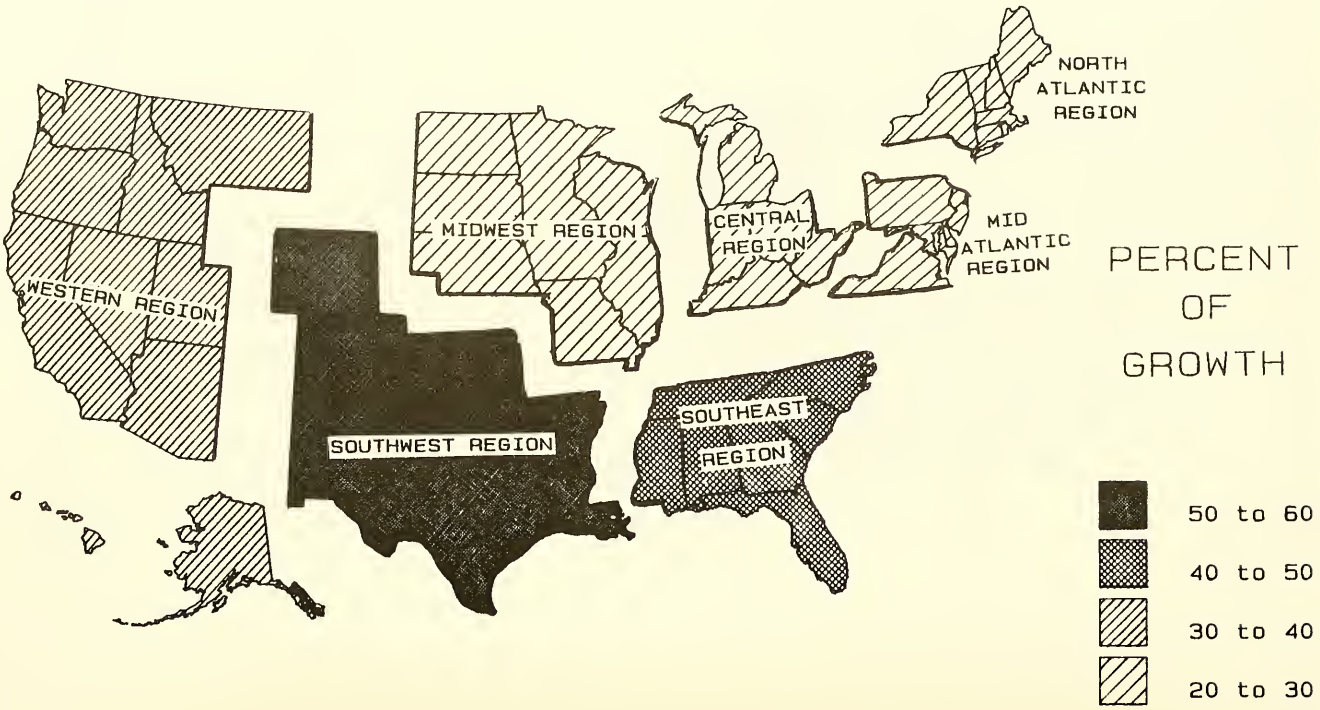
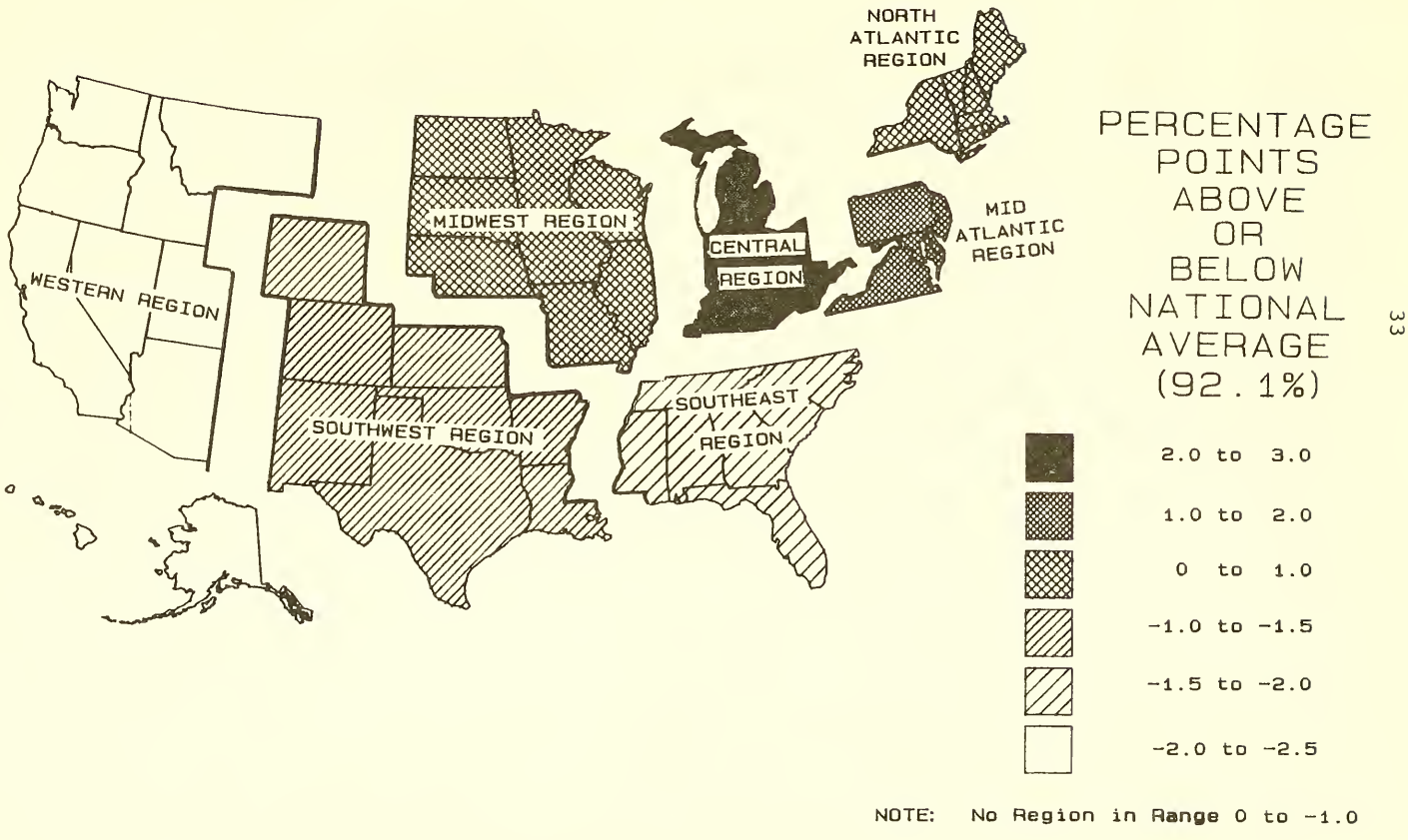


Figure 4. Comparison of Weighted Average VCL to National Weighted VCL for Individual Returns 1965 - 1982



examination class as well as provide sufficient data through "profitable to audit" returns for the development of Discriminant Function (DIF) formulas. These formulas, which comprise the DIF selection system, are then used to prioritize the selection of returns with high tax change, thereby reducing the percentage of examinations resulting in no tax change.

Although the sample was not designed on a geographical basis, it is large enough to provide reasonable estimates of compliance by IRS region. This is true for totals but not generally by examination class.

Sampling Variability and Quality of Data

A major factor in determining the reliability of the computed VCL's is the quality of the examinations conducted for each TCMP survey. The better the examination, the more likely that tax change will be found and therefore, the more accurate the VCL estimate. In this report, we have assumed that there are no regional differences in the quality of the examination and that the quality level has remained relatively constant over time.

Sampling variability may also affect regional VCL's. As a result of sampling variability, there is the possibility that the VCL's of regions may not be significantly different from one another. That is why it is important to consider the overall trend.

Distribution Of High Change Cases
Among Regions

by
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The following analysis was performed to answer the question: Are high tax change cases divided evenly among the various IRS regions? For this purpose, data was extracted from the TCMP III-7 (TY79) data file to identify the returns whose tax change placed them in the upper 5 percent nationally. These cases were then examined to find their distribution among the regions. As a result these high change cases were found to be unevenly distributed across the regions, with certain regions having far more or less than their "share" of these cases.

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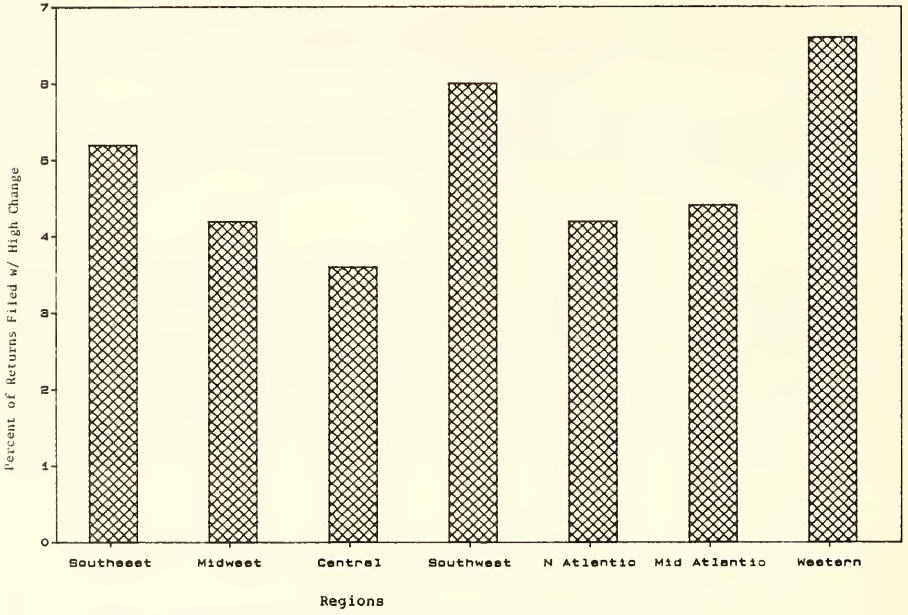
Nationally, the upper 5 percent of all cases when ranked by perfect selection consisted of all returns which had an absolute tax change greater than $756. We will call these "high change cases" for this example. Figure 1. presents the percent of each region's returns that had a high tax change. We would expect each region to have 5 percent of their returns in the high tax change range if the regions were similar in the amount of tax change that was incorrectly reported. Instead, we have regions, such as Central, that have relatively few high tax change cases, and regions, such as Western, that have more than a 5 percent share of high change cases.

Table 1. presents the weighted number of cases in the upper 5 percent of all cases that fell into each region. In the first column, Southeast Region had 694,000 cases (weighted from TCMP III-7) of the high tax change cases in the nation; i.e., 15.4 percent of the total. These cases would result in $1,865,000,000 of tax change, which was 14.4 percent of the national total tax change for high change cases. Since 14.6 percent of all returns were filed in the Southeast Region, they had a proportionate number of high tax change cases. Finally, the Southeast Region had only 12.3 percent of the total high income returns filed.

On the other hand, taxpayers in Western Region filed 17.5 percent of all individual tax returns and 19.6 percent of the returns filed as high income returns, resulting in 23.4 percent of the high tax change cases; they had more of the high change cases than would be expected. Over 25 percent of the total dollar value of the high tax change cases were also found in the Western Region, again more than

Figure 1. Regional Distribution of High Change Cases*
(as a Percent of All Returns Filed in the Region)



*High change cases are defined as those cases in the highest 5 percent of all cases in the nation when ranked by absolute tax change.

Table 1. Regional Distribution of High Change Cases

	WEIGHTED TOP 5% RANKED BY PERFECT SELECTION (thousands)	PERCENT OF TOTAL (%)	NUMBER OF RETURNS FILED (thousands)	PERCENT OF TOTAL (%)	NUMBER OF HIGH INCOME RETURNS 1/ FILED (thousands)	PERCENT OF TOTAL (%)	AVERAGE VALUE OF CASES ($)	TOTAL VALUE OF CASES (millions of $)	PERCENT OF TOTAL (%)
U.S.	4,516	100.0	91,058	100.0	5,524	100.0	2,867	12,947	100.0
SER	694	15.4	13,280	14.6	679	12.3	2,687	1,865	14.4
MWR	542	12.0	12,791	14.0	990	17.9	2,856	1,547	11.9
CR	443	9.8	12,338	13.5	641	11.6	2,395	1,061	8.2
SWR	712	15.8	11,796	13.0	813	14.7	2,922	2,081	16.1
NAR	522	11.6	12,407	13.6	646	11.7	2,754	1,438	11.1
MAR	547	12.1	12,490	13.7	673	12.2	2,978	1,628	12.6
WR	1,056	23.4	15,956	17.5	1,081	19.6	3,152	3,328	25.7

1/ High Income Returns were defined as high non-business returns, medium and high (Schedule C) non-farm business returns, and medium and high (Schedule F) farm returns.

would be expected. Central Region filed 13.5 percent of all individual tax returns, including 11.6 percent of all high income returns; these returns resulted in only 9.8 percent of the high tax change cases and 8.2 percent of the dollars collected from the high tax change cases.

These results complement the findings for the voluntary compliance levels (VCL) as discussed in the previous article, "Regional Trends in Individual Voluntary Compliance Levels for 1965-1982." As expected, the regions with the lowest VCLs are the regions having the larger proportions of high change returns. Conversely, the regions with high VCLs have fewer returns with high tax changes.

If it is assumed that all regions examine TCMP cases with the same degree of care and expertise, then the results of this analysis indicate certain regions have more productive cases available to work, while other regions have fewer. This could be because some regions have a larger proportion of high income returns as indicated in Table 1. or because some regions have more compliant taxpayers than others. However, another possible explanation for this unbalanced distribution of high change cases could be the quality of the examinations of the TCMP returns; i.e., examiners did not discover all errors made by the taxpayer. In any case, this points out the fact that examination resources should continue to be concentrated in regions having the larger numbers of high yield returns.

Business Cycles and Individual Income Tax Compliance*

by
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It has been suggested that economic cycles can affect individual income tax compliance. This article compares individual taxpayer reporting compliance and payment compliance to business cycle indicators. These indicators include business cycle reference dates as designated by the National Bureau of Economic Research. In addition, these compliance patterns are compared to competing demands for taxpayers' funds as measured by consumer credit as a percent of personal income. The conclusion is that the pattern of reporting compliance, as measured by TCMP, suggests a general downward trend in compliance that is not influenced by cyclical movements in the economy. The decrease in payment compliance appears to be unrelated to measures of consumer credit and unemployment.

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Background

It has been suggested that economic cycles can affect individual income tax compliance. The proposition has an intuitive appeal. As economic conditions worsen, unemployment increases, and taxpayers have less income, one might expect that they would be less willing and able to fulfill their income tax obligations. This article discusses the results of an investigation into the relationship between business cycles and income tax compliance of individuals.

In evaluating compliance of individuals, two measures were employed. First, TCMP compliance measures for the years 1963, 1965, 1969, 1972, 1976, 1979 and 1982 were considered.[1/] These measures relate to taxpayers' compliance in correctly reporting income and deductions, exemptions, etc., on their tax returns. The low frequency of TCMP surveys of individual income tax returns clearly limits their usefulness for cyclical analysis. Second, the percentage of tax due at time of filing that was actually paid with the return was analyzed. While this figure is available from Statistics of Income for every year from 1969 to 1980, such a short time span limits the usefulness of this statistic.

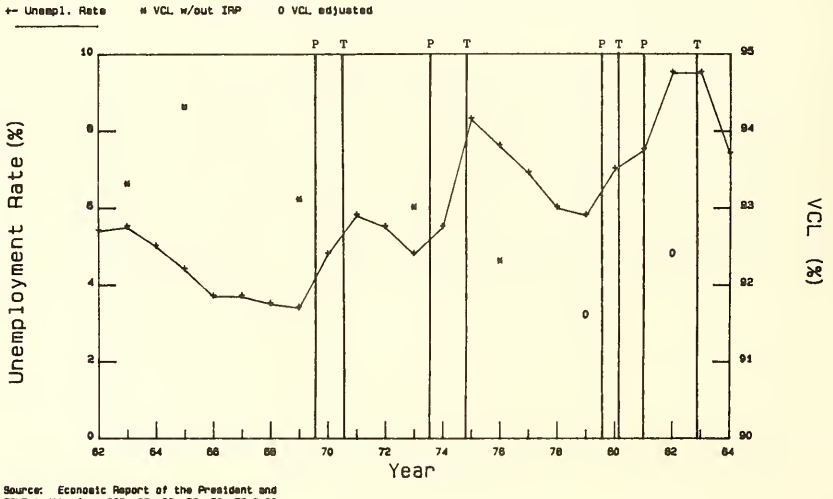
* The topic for this paper was suggested by the Regional Commissioner, Mid-Atlantic Region.

The TCMP compliance measure was compared to cyclical movements in unemployment and to business cycle reference dates. The business cycle reference dates are those designated by the National Bureau of Economic Research (NBER). They indicate the dates when aggregate economic activity reached its cyclical peak (P) or trough (T).[2/] The year-to-year pattern of tax paid with the return as a percent of tax due at time of filing ("tax payment rate") was compared to movements of the unemployment rate and of consumer credit outstanding as a percent of disposable personal income ("consumer credit rate").

TCMP Compliance Rates

The individual income tax compliance rates, as measured by TCMP voluntary compliance levels (VCLs), are compared to measures of economic cycles in Figure 1. The VCLs express tax and penalties voluntarily reported as a percent of tax and penalties voluntarily reported plus the aggregate of understatements of tax and penalties. Note that the TCMP VCL's are indicated by asterisks for 1963, '65,'69, '73 and 1976 but by ovals for 1979 and 1982. The reason is that in the last two surveys the examiners were able to use transcripts of W-2 and 1099 information provided by the information returns program (IRP). In the earlier surveys up to 1976, this information was not available to the examiners. The VCLs for 1979 and 1982 have been increased by .6 to make them comparable to the VCLs from earlier surveys. The adjustments were based on the results of the 1976 TCMP/IRP study. That study measured the additional amounts of underreported tax which W-2s and 1099s could reveal after TCMP audits had been completed.

Figure 1. Individual Income Tax VCL and Unemployment Rate with NBER-Designated Recessions, 1962-1984


← Unempl. Rate
* VCL w/out IRP
O VCL adjusted
P T P T P T P T
Unemployment Rate (%)
VCL (%)
Year
62 64 66 68 70 72 74 76 78 80 82 84
0 2 4 6 8 10
90 91 92 93 94 95

Source: Economic Report of the President and TCMP Audits for 1963, 65, 69, 73, 76, 79 & 82

Along with the VCLs, the unemployment rate is also shown in Figure 1. The NBER designated peaks and troughs of the recessions of 1970, 1974, 1980 and 1982 are also indicated. Note from the designated recession periods that only one TCMP tax year, 1982, was a recession year. (NBER dates the economic peak in July 1981 and the trough in November 1982.) However, the filing seasons--during which some decisions about compliance are made--for the 1969, 1973 and 1979 TCMP tax year returns occurred shortly after the economic downturns of the 1970, 1974 and 1980 recessions respectively. (NBER designated the peak for the 1970 recession as December 1969 and the trough as November 1970; for the 1974 recession, the peak was November 1973 and the trough March 1975; for the 1980 recession the peak was January 1980 and the trough was July 1980). Thus, four of the seven available VCLs, including the VCL for 1982, could have been affected by adverse economic conditions.

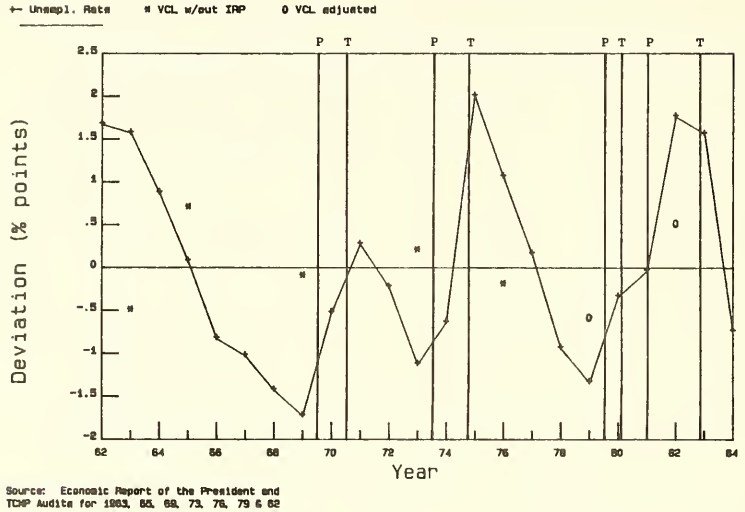
The pattern of the TCMP results suggests a general downward trend in measured compliance but no influence of economic conditions on compliance. The deterioration in compliance has been interrupted twice--in 1965 and 1982. The 1965 increase in compliance occurred during a period of prosperity marked by falling unemployment. The 1982 increase occurred during a major recession. The relationship between economic recessions and VCLs might be seen more clearly when the VCL deviations from trend are compared to the NBER designated recessions. Figure 2. shows these VCL deviations plotted against the deviations of the annual average unemployment rate from its trend. In this figure, a zero deviation would indicate that the VCL or unemployment rate was exactly that predicted by a straight-line trend fitted to the data. A negative deviation indicates that the measured VCL or unemployment rate falls below the straight-line trend. A positive deviation means the VCL or unemployment rate is above the trend. The trend was computed using the adjusted VCLs for 1979 and 1982 noted above.

Table 1. TCMP VCLs, Deviations From Trend and Comparison with Unemployment Rate 1963-1982

Tax Years	VCLs	Deviations from trend	Unemployment rate
1963	93.3	-0.5	5.5
1965	94.3	0.7	4.4
1969	93.1	0.1	3.4
1973	93.0	0.2	4.8
1976	91.7	-0.2	7.6
1979	91.6*	-0.6	5.8
1982	92.4*	0.5	9.5

* See text

Figure 2. Deviations From Trends:
Individual Income Tax VCL and Unemployment Rate
with NBER-Designated Recessions, 1962-1984



Source: Economic Report of the President and TCMP Audits for 1963, 65, 69, 73, 76, 79 & 82

This comparison does not suggest a relationship between VCLs and unemployment. In three cases, the VCL deviation and the unemployment rate deviation are on opposite sides of the zero line. In four cases they are on the same side. This is just what would be expected from pure random values of two sets of figures. If economic conditions do affect tax compliance, there is presently too little information on the historical course of compliance to verify such a relationship.

Tax Payment Rates

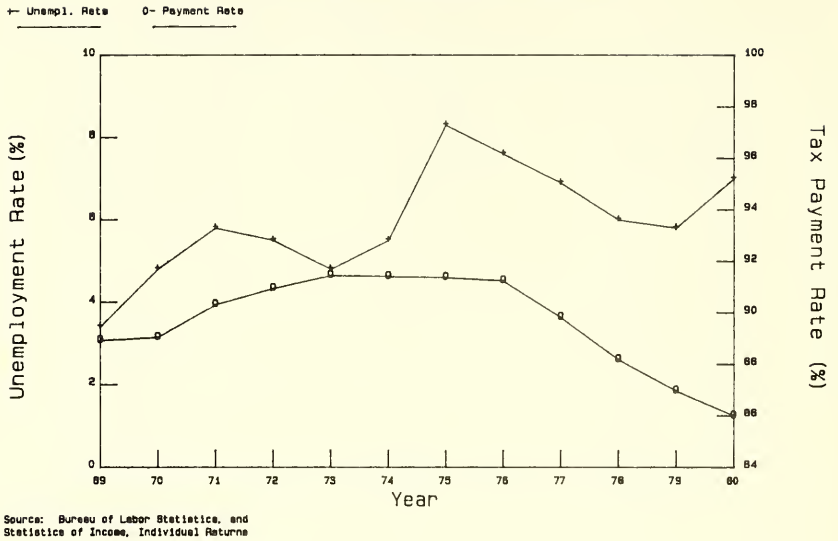
In addition to VCLs, another area of compliance which might be affected by business cycles is taxpayers' willingness to pay the tax due at time of filing. Unemployment could make it more difficult for taxpayers to obtain the funds necessary to pay the tax due with their returns. An offsetting tendency may, however, be created by the fact that for most wage earners periods of unemployment tend to generate overwithholding so there is no balance due at the time of filing. But if recessions do affect payment compliance for individuals it should show up in the tax payment rate. Specifically, by looking at the portion of the tax due at time of filing that was paid with the return, one should have a measure of taxpayers' ability or willingness to pay the tax when it is due. The behavior of this statistic can then be compared to indicators of business cycles to determine the extent to which it is influenced by these cycles. Table 2. displays the data for our analysis.

Table 2. Tax Paid With Return as a Percent of Tax Due, Unemployment Rate, and Consumer Credit Outstanding as a Percent of Disposable Personal Income, 1969-1980

Tax Year	Tax paid with return as percent of tax due	Unemployment rate for the quarter following the tax year	Consumer credit as a percent of disposable personal income in the quarter following the tax year
1969	88.91%	4.07%	18.02%
1970	89.03	5.77	17.07
1971	90.30	5.67	17.74
1972	90.93	4.83	18.17
1973	91.44	5.03	18.91
1974	91.40	8.10	18.31
1975	91.36	7.63	18.98
1976	91.23	7.40	19.65
1977	89.81	6.23	20.74
1978	88.17	5.80	21.66
1979	86.16	6.20	21.52
1980	85.99	7.30	19.42

Figure 3. shows the tax payment rate and the unemployment rate. For this purpose, the unemployment rate used is the one for the first quarter following the tax year. This comparison shows that the tax payment pattern is roughly an inverted "U" shape and not closely related to the business cycles. The payment percentage was 88.9 percent in 1969 and increased steadily to 91.4 percent in 1973. During this period, the unemployment rate first rose and then fell. The payment rate remained roughly constant until 1976, while unemployment was rising; then it began a rather precipitous decline to a level of 86.0 percent in 1980. This period of declining payment compliance was one of falling unemployment except for the increase in 1980.

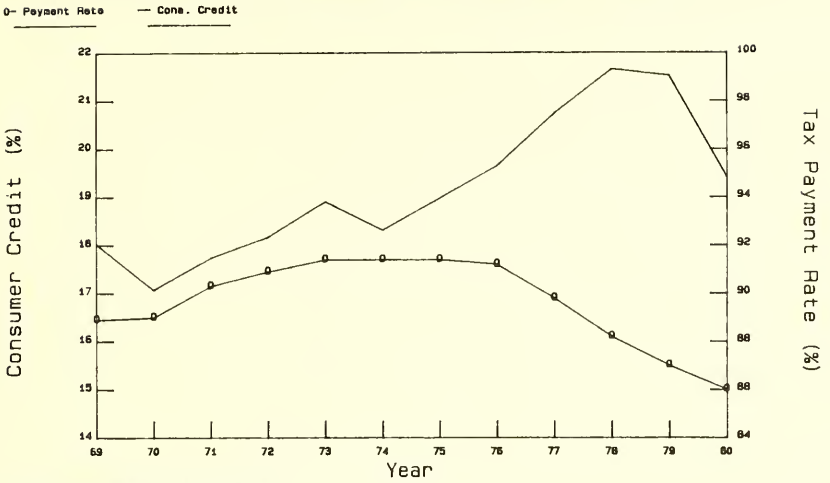
Figure 3. Tax Payment Rate
and Unemployment Rate, 1969-1980



Source: Bureau of Labor Statistics, and Statistics of Income, Individual Returns

Economic changes might affect taxpayer payment compliance through the amount of consumer credit outstanding. Credit repayment demands on the taxpayer could compete with the payment of taxes due at time of filing. Because the payment decision is usually made before April 15 following the tax year, here also the consumer credit rate in the first quarter of the year following the tax year was compared to the tax year tax payment rate, in Figure 4. The first part of the data (1969-1975) shows the payment rate and the consumer credit rate rising together. This is not what one would expect if the consumer credit variable is a measure of the difficulty taxpayers have in paying their bills. In any case, the consumer credit rate rose rapidly from 1974 to 1978 while the payment rate remained steady for two years and then began to fall. The payment rate continued falling after the consumer credit rate had peaked and begun to decline. This variable appears to have no effect on payment compliance. A search through many other candidate variables did not reveal any which could plausibly be interpreted as showing an effect of economic cycles on tax payment behavior.

Figure 4. Tax Payment Rate and Consumer Credit Outstanding as a Percent of Disposable Personal Income (First Quarter, Following Year), 1969-80



Source: Economic Report of the President, and Statistics of Income, Individual Returns

Conclusion

Comparing the pattern of individual income tax reporting and payment compliance rates with economic cycles is seriously hindered by the lack of data. The available evidence suggests that there is no connection between the two. Further research, especially including accumulation of more data on compliance, might reveal relationships which are not visible in the information we now have.

Notes and References

1/ "TCMP" is the Taxpayer Compliance Measurement Program. For individuals, intensive audits of approximately 50,000 tax returns chosen as a stratified probability sample.

2/ The reference dates are from Business Conditions Digest Bureau of Economic Analysis, U.S. Department of Commerce, March 1982.

Trends in DIF and DIF Related Source Examinations*

by
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DIF and DIF Related source examinations are declining both in total numbers and as a source of revenue agent and tax auditor workload. The trend is quite apparent in the individual returns area, where DIF and DIF Related source exams declined from 77.2 percent of all exams in FY 1979 to 60.3 percent in FY 1984. The trend is not as pronounced in the corporation area, where DIF and DIF Related exams only declined from 55.3 percent in FY 1979 to 49.1 in FY 1984. Some explanations for the decline are the increased usage of Special Examination Programs such as the Tax Shelter Program and the district office selection of Source Other returns provided their yield is equal to or greater than that produced from DIF source returns. (Many of the Source Other returns also have high DIF scores.) Despite the decline, DIF and DIF Related returns remain, by far, the major source of returns selected for examination.

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Background

Over the past several years, many field Examination personnel have expressed their belief that the number of DIF and DIF Related examinations have been dwindling, especially as a source for revenue agent exams. To assess this situation, the trends over the past six fiscal years, i.e., FY 1979 to FY 1984, were reviewed. The trends were examined from various viewpoints including: individual exams by total DIF and DIF Related source versus total Source Other; Revenue Agent (RA) individual exams by DIF and DIF Related source versus Source Other; Tax Auditor (TA) individual exams by DIF and DIF Related source versus Source Other; and, corporation exams by DIF and DIF Related source versus Source Other. The findings are discussed below.

Individual Returns Examinations

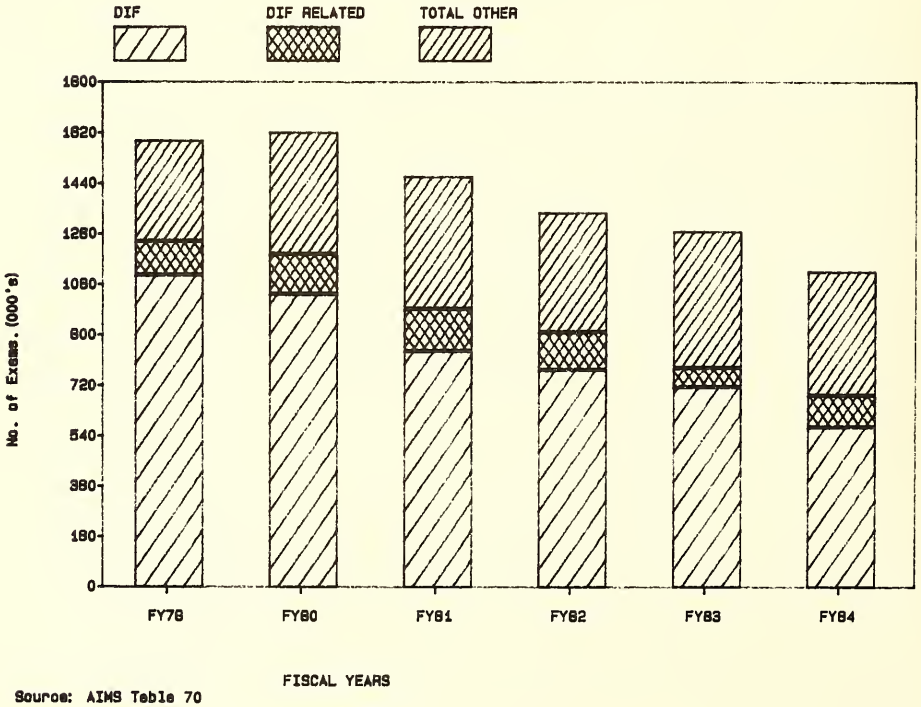
DIF and DIF Related versus Source Other

As illustrated in Figure 1., the obvious trend is that fewer and fewer examinations are being conducted. In fact, between FY 1979 and FY 1984, the number of exams decreased by almost 30 percent. At the same time, returns filed have been increasing. Figure 1. also shows that there is a trend of decreasing DIF and DIF Related exams. While the total number of exams conducted

*The topic for this article was suggested by the District Director, Nashville.

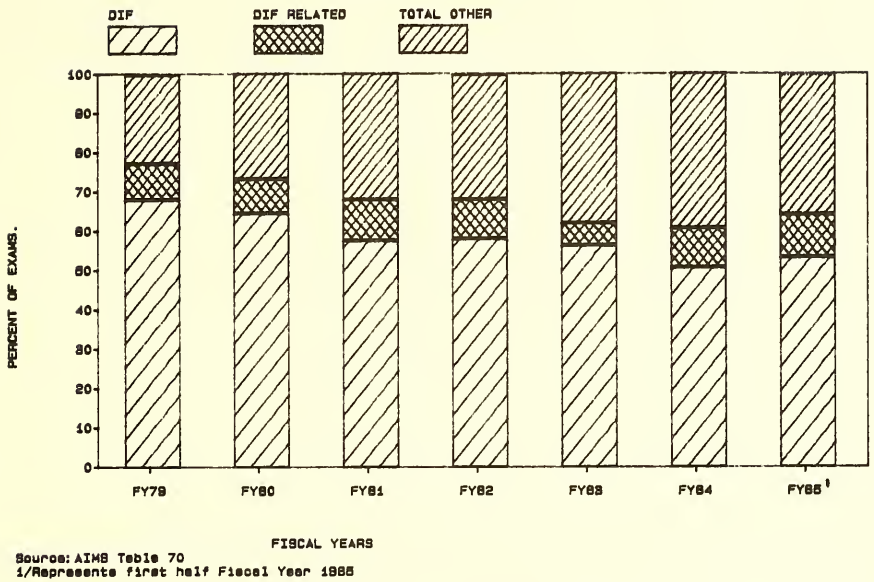
decreased by 30 percent between FY 1979 and FY 1984, the number of DIF and DIF Related (DDR) exams decreased by 45 percent. In FY 1979, DIF and DIF Related exams accounted for 77.2 percent of all exams as shown in Figure 2. This had dropped to 60.3 percent in FY 1984. (Through the first half of FY 1985, this figure was up to 63.7 percent.) This decline took place primarily in DIF source returns since DIF Related source returns have remained relatively constant as a percent of workload. Also, the big decline took place in the earlier years while in the most recent years it appears to be leveling out especially if the figures for FY 1985 are a good indication. This trend can be looked at in more detail by comparing revenue agent exams with tax auditor exams.

FIGURE 1. INDIVIDUAL EXAMINATIONS
BY SOURCE BY FISCAL YEAR
U.S. SUMMARY



Source: AIMS Table 70

FIGURE 2. INDIVIDUAL EXAMINATIONS
BY SOURCE BY FISCAL YEAR
U.S. SUMMARY

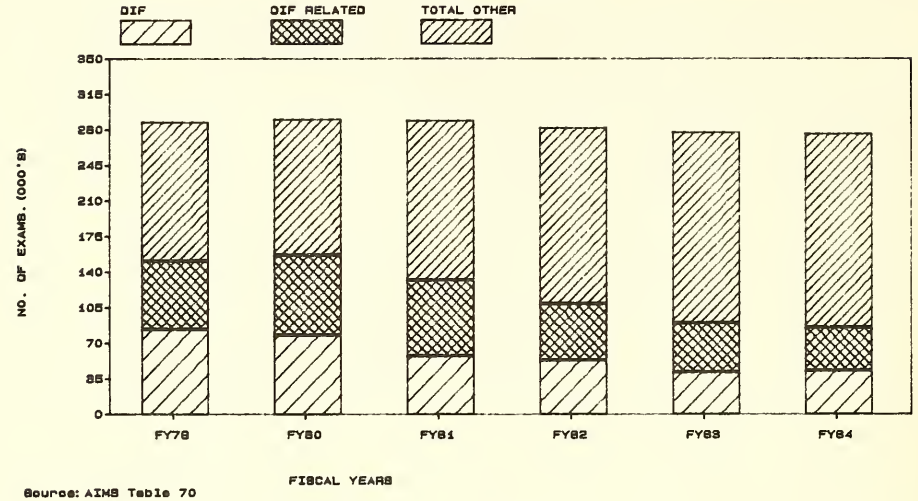


Source: AIMS Table 70
1/Represents first half Fiscal Year 1985

Revenue Agent versus Tax Auditor Examinations

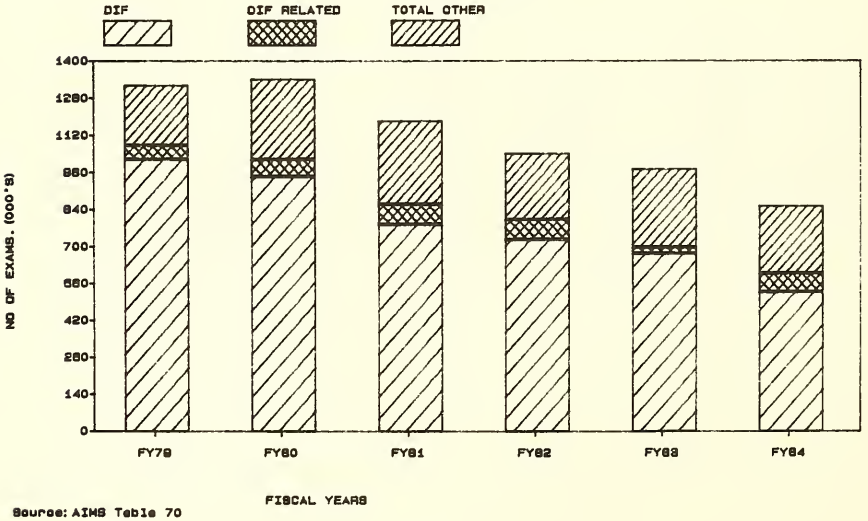
Figures 3. and 4. illustrate how the number of DDR exams conducted by tax auditors and revenue agents decreased between FY 1979 and FY 1984. In fact, the number of DDR exams by RA's decreased by 43 percent and the number by TA's decreased by 45 percent. Thus, the decreasing trend is similar in both types of exams although it is slightly less in the RA area.

FIGURE 3. NUMBER OF INDIVIDUAL RETURNS
BY SOURCE BY FISCAL YEAR FOR REVENUE AGENTS
U.S. SUMMARY



Source: AIMS Table 70

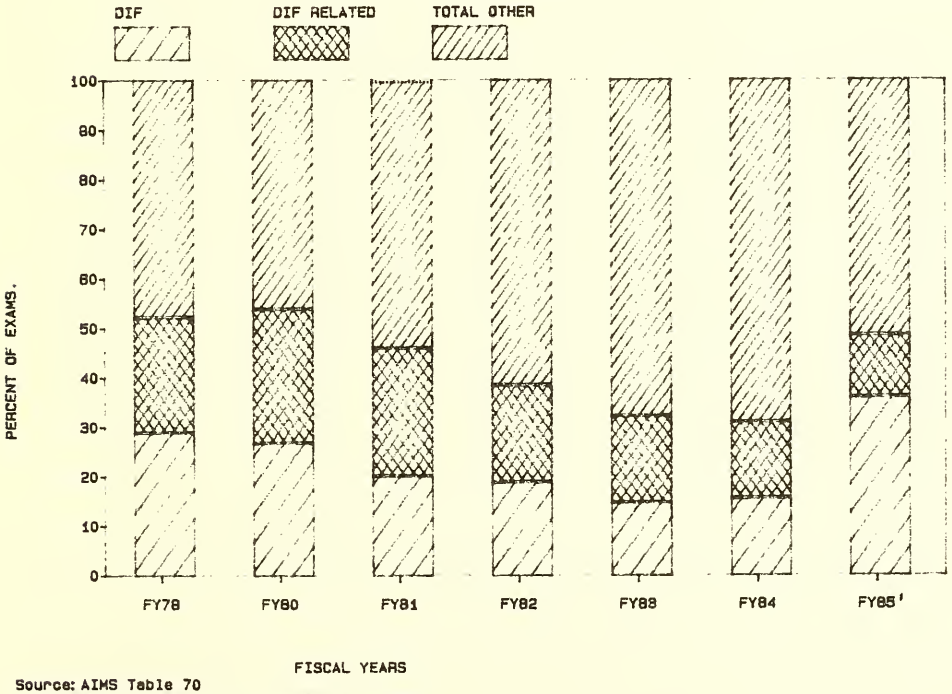
FIGURE 4. NUMBER OF INDIVIDUAL RETURNS
BY SOURCE BY FISCAL YEAR FOR TAX AUDITORS
U.S. SUMMARY



Source: AIMS Table 70

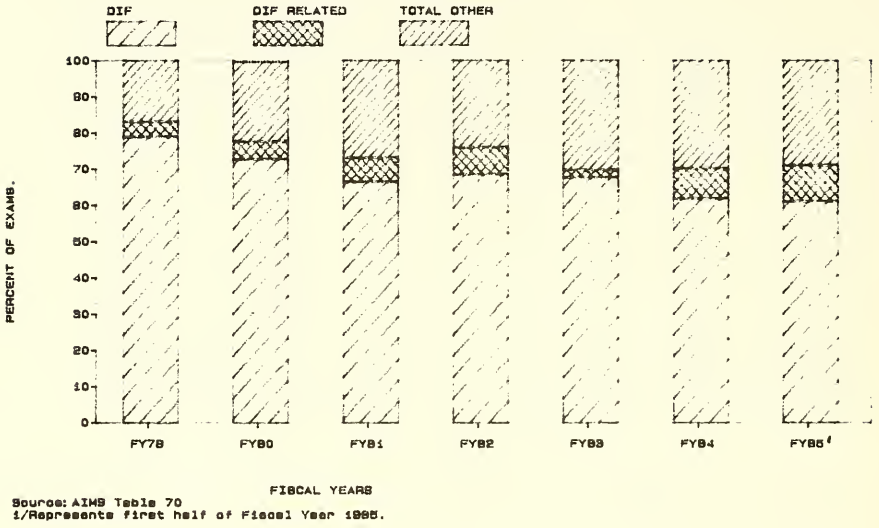
In FY 1979, DDR exams accounted for 52.1 percent of RA exams and 82.7 percent of TA exams, as depicted in Figures 5. and 6. In FY 1984, the percents dropped to 30.7 and 69.9, respectively. (Through the first half of FY 1985, the figures were 48.4 percent for RA's and 70.7 percent for TA's.) Thus, DDR exams are still a major source of TA and RA workload even though the percentage decreased during the six year period, especially for RA's. The figures also show that, for TA exams, while DIF source exams as a percent of workload have been decreasing DIF Related exams have been increasing, and for RA exams, the combined DIF and DIF Related exams has remained relatively evenly divided between DIF Related and DIF.

FIGURE 5. PERCENT OF INDIVIDUAL RETURNS BY SOURCE BY FISCAL YEAR FOR REVENUE AGENTS U.S.SUMMARY



Source: AIMS Table 70
1/Represents first half of Fiscal Year 1985.

FIGURE 6. PERCENT OF INDIVIDUAL RETURNS BY SOURCE BY FISCAL YEAR FOR TAX AUDITORS U.S.SUMMARY



Source: AIMS Table 70
1/Represents first half of Fiscal Year 1985.

District Office Comparisons

District office comparisons of individual return examinations for FY 1984 are presented Table 1.:

Table 1. Individual Return Examinations

Percent of DDR Source Exams	Total	Tax Auditor	Revenue Agents
Total:			
Largest D.O. Percent	81.1%	87.7%	50.4%
Smallest D.O. Percent	39.8	42.6	15.1
Median Percent	60.1	71.9	31.3
Average Percent	60.3	69.9	30.7

Table 1. indicates there is a large range between the district office with the largest percent of DIF and DIF Related source exams and that with the smallest percent; i.e., from a low of 39.8 percent to a high of 81.1 percent or a range of 41.3 percentage points. The median percent of DDR exams for tax auditors is about 60 percent; i.e., half of the district offices have DDR source exams accounting for more than 60 percent of TA workload and half have less than 60 percent. The DDR workload for TA's in one district is about 88 percent. For revenue agents

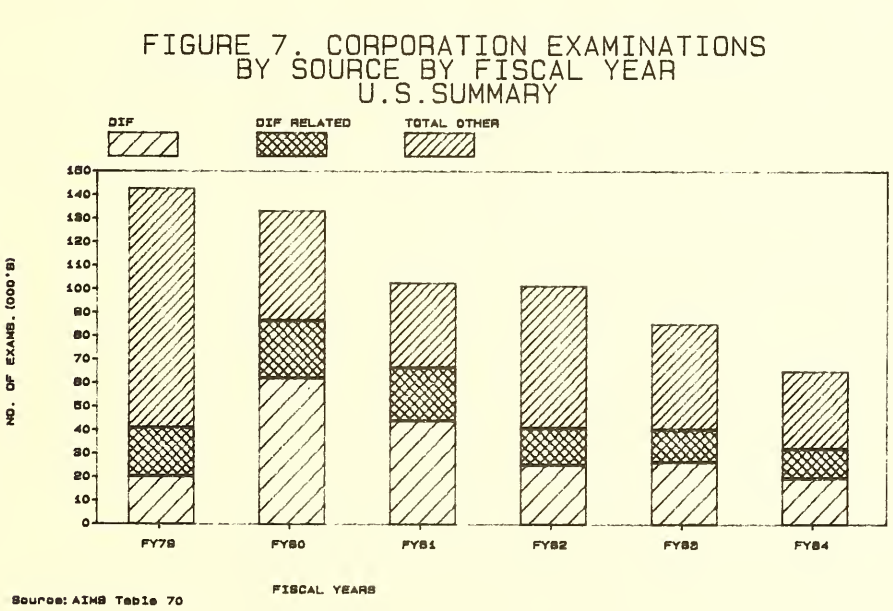
(RA's), the median percent of DDR exams is about 23 percent which is quite low. In one district, DDR exams account for only 15 percent of its RA workload. The largest percent for RA's is about 50 percent. (See Appendix 1. for detailed data by region and district office.)

Corporation Returns Examinations

DIF and DIF Related versus Source Other

As illustrated in Figure 7., fewer and fewer examinations have also been conducted in the corporation area. In fact, between FY 1979 and FY 1984, the number of exams decreased by about 54 percent. Figure 7. also shows that there is a trend of doing fewer DIF and DIF Related exams but the decline has not been as pronounced as in the individual area. (Note: The data shown is for all corporations; however, only those corporations with under $10 million assets are DIF scored.) While the number of exams conducted decreased by 54 percent between FY 1979 and FY 1984, there was only a decrease of about 21 percent in the number of DIF and DIF Related exams.

FIGURE 7. CORPORATION EXAMINATIONS
BY SOURCE BY FISCAL YEAR
U.S.SUMMARY

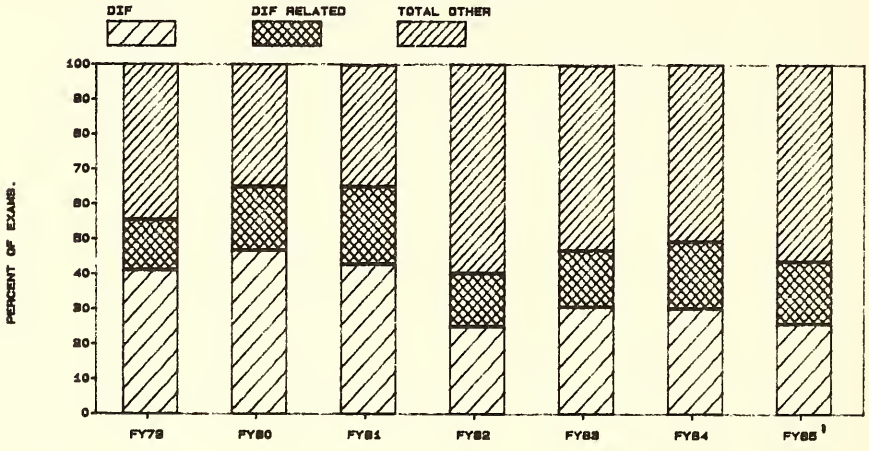


Source: AIMS Table 70

In FY 1979, DIF and DIF Related exams accounted for 55.3 percent of all exams as shown in Figure 8. This only dropped to 49.1 percent in FY 1984. However, since FY 1982, there appears to be an increasing trend in the percent of DDR exams from about 40 percent in FY 1982 to about 49 percent in FY 1984. (Through

the first half of FY 1985, this figure was at 43.4 percent.) Thus, while the decreasing trend in DDR returns in the individual area is clear, it is not clear what the trend is in the corporation area. Here again, DIF Related exams have remained relatively constant while the decline, if there is one, is taking place in DIF exams.

FIGURE 8. CORPORATION EXAMINATIONS
BY SOURCE BY FISCAL YEAR
U.S.SUMMARY



Source: AIMS Table 70
1/Represents first half of Fiscal Year 1985.

District Office Comparisons

For FY 1984, district office comparisons of corporation examinations for FY 1984 are presented in Table 2.:

Table 2. Corporation Return Examination

Percent of DDR Source Exams	Total
Largest D.O. Percent	73.1%
Smallest D.O. Percent	28.7
Median Percent	48.6
Average percent	49.1

Table 2. above shows there is a large range between the district office with the largest percent of DIF and DIF Related

source exams and that with the smallest percent; i.e., from a low of 28 percent to a high of 73.1 percent, or a range of 44.4 percentage points. The median percent of DDR exams is about 35 percent; i.e., half of the district offices have DDR source exams accounting for more than 35 percent of total workload and half have less than 35 percent. The average DDR workload is 49 percent. (See Appendix 1. for detailed data by region and district office.)

Comparison of Source of Exams-FY 79 versus FY 84

Since the preceding analysis indicates there is a trend of fewer DDR exams, other sources of returns must be increasing. In fact, after all sources of exams in FY 79 were compared with those in FY 84, it was apparent that one specific component of Source Other exams was the major gainer as source of exams. This component was tax shelters.

In FY 1979 for individual examinations, tax shelter exams only accounted for 1.7 percent of revenue agent workload. In FY 1984, this percent increased to 19.1 percent. For tax auditors, tax shelter exams grew from less than 1 percent of workload in FY 1979 to 3.3 percent in FY 1984.

Tax shelter exams increased from about 0.1 percent of the corporation exam workload in FY 1979 to 3.0 percent in FY 1984. However, the major gainer in the corporation area was claims. Claims increased from 6.7 percent of workload in FY 1979 to 13.1 percent in FY 1984.

Conclusion

Since FY 79, the analysis has shown that DIF and DIF Related exams as a percent of total workload has decreased in both the individual and corporation returns areas. There has been a definite downward trend for individual returns but the trend in the corporation area is not as apparent since in recent years an increase has occurred in DDR exams. Most of the decline is occurring in DIF source exams while DIF Related exams have remained relatively constant. Although the percent of DIF source exams is decreasing, the predominant increase is taking place in tax shelter exams.

Some of this trend can be attributed to an increase in the: 1) usage of Special Examination Programs, such as the Tax Shelter Program, as a source of exams and 2) district office selection of Source Other returns provided their yield is equal to or greater than that produced from DIF source returns. (Many Source Other returns have high DIF scores as shown in AIMS Table 102.) Thus, the general trend and the differences across districts is not surprising. However, even though the percent of DIF and DIF Related exams appears to be decreasing, they remain a very important and vital part of the total Examination plan.

Appendix 1. Dif and Dif Related Exams as a Percent of Total Workload by Type of Exams

FY 1984

REGION/DISTRICT OFFICE	TOTAL	INDIVIDUAL		CORPORATION
		REVENUE AGENT	TAX AUDITOR	
UNITED STATES (AVERAGE)	60.34%	30.74%	69.94%	49.06%
NORTH ATLANTIC REGION	50.20%	36.10%	54.33%	58.87%
ALBANY	61.42%	31.51%	69.13%	57.77%
AUGUSTA	68.72%	44.39%	77.58%	49.29%
BOSTON	56.90%	36.11%	64.21%	51.59%
BROOKLYN	39.83%	23.62%	42.62%	42.52%
BUFFALO	56.65%	21.82%	68.20%	42.83%
BURLINGTON	66.60%	29.28%	75.66%	43.35%
HARTFORD	56.62%	50.37%	58.77%	72.67%
MANHATTAN	44.39%	43.37%	44.77%	68.24%
PORTSMOUTH	49.10%	31.19%	53.59%	35.86%
PROVIDENCE	54.24%	31.48%	60.37%	64.31%
MID-ATLANTIC REGION	57.53%	29.89%	64.62%	45.41%
BALTIMORE	57.88%	27.05%	64.04%	47.56%
NEWARK	56.99%	30.68%	63.36%	51.00%
PHILADELPHIA	58.93%	34.48%	65.26%	36.15%
PITTSBURGH	53.49%	21.25%	64.50%	36.40%
RICHMOND	56.87%	30.00%	64.97%	45.71%
WILMINGTON	72.65%	43.51%	79.37%	58.11%
SOUTHEAST REGION	64.29%	28.97%	75.52%	49.09%
ATLANTA	59.98%	22.20%	74.47%	43.06%
BIRMINGHAM	67.48%	22.77%	76.18%	37.31%
COLUMBIA	65.47%	26.51%	74.83%	35.57%
GREENSBORO	59.15%	30.52%	67.12%	36.49%
JACKSON	71.56%	34.93%	79.43%	41.03%
JACKSONVILLE	64.00%	30.40%	77.52%	62.51%
LITTLE ROCK	69.15%	32.85%	81.21%	40.79%
NASHVILLE	67.60%	32.96%	76.16%	52.88%
NEW ORLEANS	72.53%	39.39%	81.52%	50.92%
CENTRAL REGION	57.76%	29.84%	69.39%	48.75%
CINCINNATI	58.47%	36.73%	68.50%	50.54%
CLEVELAND	61.22%	31.76%	70.21%	45.58%
DETROIT	51.83%	27.49%	65.06%	57.83%
INDIANAPOLIS	56.27%	21.62%	70.13%	37.39%
LOUISVILLE	61.89%	32.72%	73.56%	42.34%
PARKERSBURG	68.75%	37.56%	78.31%	33.52%
MIDWEST REGION	57.91%	24.33%	71.22%	37.39%
ABERDEEN	72.58%	28.80%	86.36%	43.93%
CHICAGO	56.83%	19.50%	72.57%	44.72%
DES MOINES	58.50%	30.40%	74.36%	38.89%
FARGO	67.01%	40.06%	73.67%	47.65%
HELENA	53.08%	15.69%	66.34%	28.71%
MILWAUKEE	47.83%	15.76%	59.81%	31.18%
OMAHA	57.51%	20.40%	79.65%	26.43%
SPRINGFIELD	59.72%	31.45%	69.38%	31.31%
ST LOUIS	57.08%	23.47%	70.07%	32.08%
ST PAUL	63.48%	34.15%	73.45%	37.41%
SOUTHWEST REGION	60.86%	34.24%	69.62%	49.97%
ALBUQUERQUE	74.73%	30.38%	84.87%	65.17%
AUSTIN	67.27%	37.59%	76.08%	48.36%
CHEYENNE	55.79%	30.49%	64.28%	59.64%
DALLAS	60.14%	36.00%	67.34%	56.14%
DENVER	52.76%	24.85%	61.45%	41.79%
HOUSTON	57.68%	40.63%	66.38%	50.94%
OKLAHOMA CITY	65.77%	36.98%	73.16%	50.12%
PHOENIX	64.36%	34.26%	73.53%	55.50%
SALT LAKE	58.07%	33.53%	66.27%	54.79%
WICHITA	51.25%	27.68%	62.70%	28.71%
WESTERN REGION	65.98%	31.07%	76.99%	50.95%
ANCHORAGE	58.37%	38.46%	68.51%	43.68%
BOISE	63.26%	18.15%	80.75%	29.95%
HONOLULU	58.45%	16.25%	68.87%	50.38%
LAGUNA NIGUEL	70.67%	29.07%	80.62%	58.46%
LOS ANGELES	56.74%	30.65%	65.94%	45.72%
PORTLAND	63.37%	15.12%	83.41%	49.91%
RENO	47.62%	24.50%	52.73%	45.52%
SACRAMENTO	81.09%	48.95%	87.67%	73.14%
SAN FRANCISCO	57.97%	36.14%	70.04%	55.64%
SAN JOSE	76.04%	38.52%	85.68%	60.95%
SEATTLE	71.31%	26.60%	86.52%	28.88%

Note: Since March 1985,Reno District was changed to Las Vegas.

A Look At Deferred Accounts

by
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To make more efficient use of its Collection function resources, the IRS designates a certain dollar threshold for balance due accounts called the "deferral level". In general, delinquent accounts below that deferral level receive only part of the Collection actions because they are placed in a special computer monitored status, if the outstanding tax liability is unresolved. As a result, the deferral program serves as an effective control mechanism to substantially reduce the volume of Collection workload flowing to the IRS district offices and/or Automated Collection System call sites, without holding back a sizable proportion of the total outstanding tax dollar liability. The volume of accounts in deferred status and the unique dynamics of the deferral procedure are the subject of this article.

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Introduction

One of the more efficient procedures used by the Collection function in handling lower dollar balance due accounts is the deferred accounts program. This program consists of a number of interrelated features. In summary, the main components of the deferral program are as follows:

- After balance due accounts have been processed through the appropriate service center notice chain, all accounts receivable requiring further Collection action are then subjected to the deferral check.

- For the most part, this deferral level check is simply a comparison to see if the amount of the outstanding liability exceeds a fixed dollar threshold (i.e., the deferral level). If the outstanding liability exceeds the deferral level, the delinquency is then classified as a Taxpayer Delinquent Account (TDA) and sent to either the Automated Collection System (ACS) or the IRS district office for further processing. If, however, the liability does not exceed the deferral threshold, the account is then placed in "deferred status" and monitored by the IRS Master File system.

- In deriving the outstanding liability to compare against the deferral level, the system considers the entire taxpayer account (i.e., any and all unpaid balances), not just the particular tax period delinquency currently on hand. In addition, this computation also includes accrued penalties and interest to date.

- As part of the deferral program, the Master File system also performs periodic aggregate analysis runs (on accounts in deferred status), wherein accrued penalties and interest are summed to date, to determine if the taxpayer balance would then exceed the deferral level. If it does, the delinquencies are reactivated to an abbreviated service center notice chain, and eventual TDA issuance, if necessary.

This synopsis of the deferral program is only a broad brush summary and there are exceptions to the flow outlined above. Still, the system remains a highly efficient Collection tool. By holding low dollar accounts in system monitored inventory until the taxpayer liability reaches a more substantial sum, the deferral program helps to ensure that the more costly Collection processing (i.e., ACS and/or district office) is not wasted on smaller dollar accounts. This, in turn, enables the ACS/district office Collection staff to devote more time to the larger dollar delinquencies (resulting in higher yield).

In addition, though in deferred status, credits are nonetheless posted to these balance due accounts. Such credits usually reflect refund offsets or subsequent payments from the taxpayer. In fiscal year (FY) 1985, such credits on deferred accounts totaled $117 million. Even though this is small relative to the $4.5 billion in credits attributed to the TDA program in FY 1985, there was virtually no additional expense involved in securing that $117 million from deferrals. Furthermore, such credits on deferrals often pay these accounts in full, thereby removing them from inventory with no additional Collection actions. Hence, from a yield-cost perspective, the deferred accounts program is quite efficient.

In the remaining portion of this article we present selected information about the IMF and BMF deferred account programs. First, we draw upon historical data compiled as part of Collection's ongoing management information system and examine the available trend information. In this section we consider: (a) the total number of modules and (b) the total amount deferred for accounts in deferral inventory. We then compare these data with some corresponding figures on TDA inventory, in an attempt to analyze the historical relationships between delinquent accounts in deferred status versus TDA status.

In the latter part of the article, we present selected information from three separate studies done in the area of deferred accounts. Each of these studies was an independent analysis designed to answer a different set of management questions and are not directly connected with each other. However, the difference in the focus of each of

these respective studies is actually beneficial in that it provides for separate dimensions from which to view the deferred accounts program. In addition, though differing in focus, each of these analyses does ultimately point to the same basic conclusion, viz., that the deferral program is an extremely effective and efficient tool for handling lower dollar accounts, with apparently little adverse impact on long-term compliance.

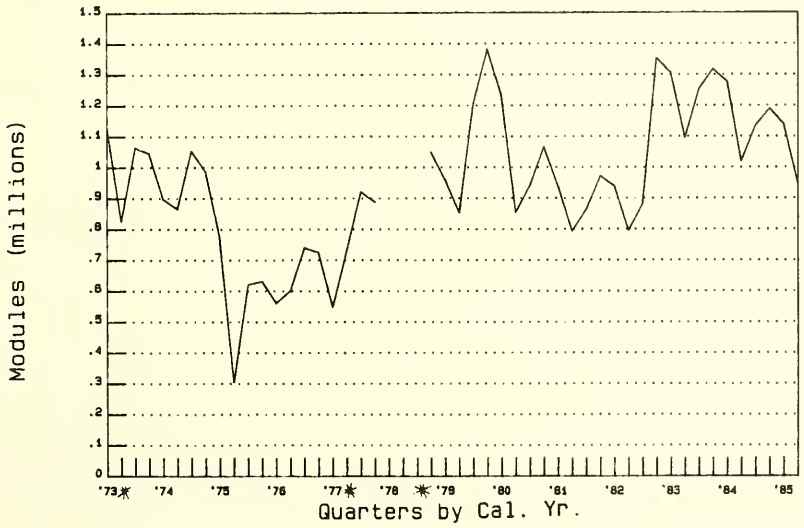
Deferred Accounts Over Time

The available time series information on deferred accounts is compiled quarterly for Collection via Master File reports. In the following discussion, we present the data on the Individual Master File (IMF) separate from the Business Master File (BMF). We do so mainly because of the inherent differences between individuals and businessess.

Individual Tax Returns

Figure 1. presents the time series data on the total number of IMF modules (returns) in deferral inventory since 1973. The information is quarterly, by calendar year, with a data gap for the first three quarters of 1978. We have placed asterisks on the time (horizontal) axis of Figure 1. to indicate that the corresponding IMF deferral level was raised in 1973, 1977 and again in 1978.

Figure 1. Number of Deferred Modules in Inventory - IMF



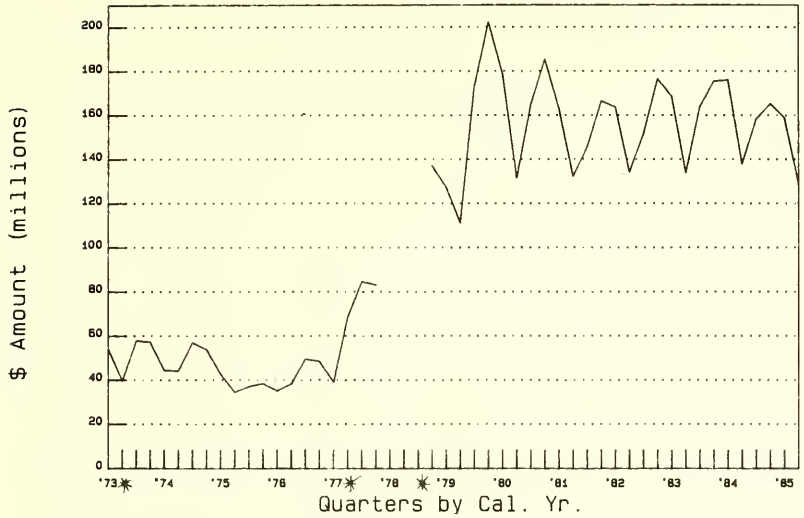
NOTE: An '*' on the horizontal axis indicates an increase in the Deferral Level. Data are missing for three of the quarters in 1978.

Figure 1. reveals a number of interesting patterns. First, there is seasonality in the data such that the number of modules in inventory tends to be lower during the first two quarters of a calendar year (i.e., the quarters ending March and June), and higher during the last two quarters (i.e., those ending in September and December). This pattern is expected since during the first part of the year taxpayers are generally filing their individual income tax returns, resulting in some refund situations that are subsequently "offset" against their other liabilities (accounts) in deferred status. This offset activity, in turn, lowers deferral inventory levels. In contrast, during the second half of the calendar year, many IMF balance due accounts from the previous filing season are then completing the standard notice chain, with a sizable portion entering deferred status at that time.

A second noteworthy pattern in Figure 1. is the extreme drop in IMF deferral inventory in the second quarter of 1975. This significant drop is primarily attributable to the 1974 Tax Rebates which were issued in 1975. Obviously, some of these rebates were offset against accounts in deferred status, thereby causing a substantial drop in the number of deferred modules in inventory. Finally, Figure 1. also reveals that aside from the seasonal peaks and valleys, the number of IMF modules in inventory from 1983 through the second quarter of 1985 has remained fairly constant, averaging around 1.17 million modules over this recent period.

When we consider the total dollar amount in IMF deferral inventory (Figure 2.), the above patterns are again apparent. However, even more obvious from Figure 2. is the relatively constant dollar volume in deferred inventory over recent years. Except for the seasonal variations, the total dollar amount of IMF deferred inventory has has changed little over the most recent four year period available, varying between $130 million and $175 million from 1981 up through the second quarter of 1985.

Figure 2. Total Deferral Amount in Inventory - IMF



NOTE: An '*' on the horizontal axis indicates an increase in the Deferral Level. Data are missing for three of the quarters in 1978.

Although the IMF deferral inventory has remained relatively steady over the last few years, this pattern is expected to change during the late 1985 through 1986 period. To affect a more efficient use of Collection resources, the IMF deferral level was raised in mid-1985. As a result of this program change, the number and dollar amount of IMF deferred accounts in inventory will likely climb during the present and short-term future, exceeding the levels experienced over the 1983 and 1984 period. However, after a year or two we expect these rising trend lines to then reach a new plateau (resuming a more constant pattern thereafter, or until another significant change in the deferral program).

Though examining time series data can be interesting in itself, it often helps to make other types of comparisons to place the information into fuller perspective. Since accounts that exceed the deferral level are generally issued as Taxpayer Delinquent Accounts (TDAs), we chose to compare the total dollar amount in deferral inventory versus the total amount in TDA inventory. Figure 3. depicts this comparison at six points in time, i.e., at the end of calendar years 1979 through 1984, respectively.

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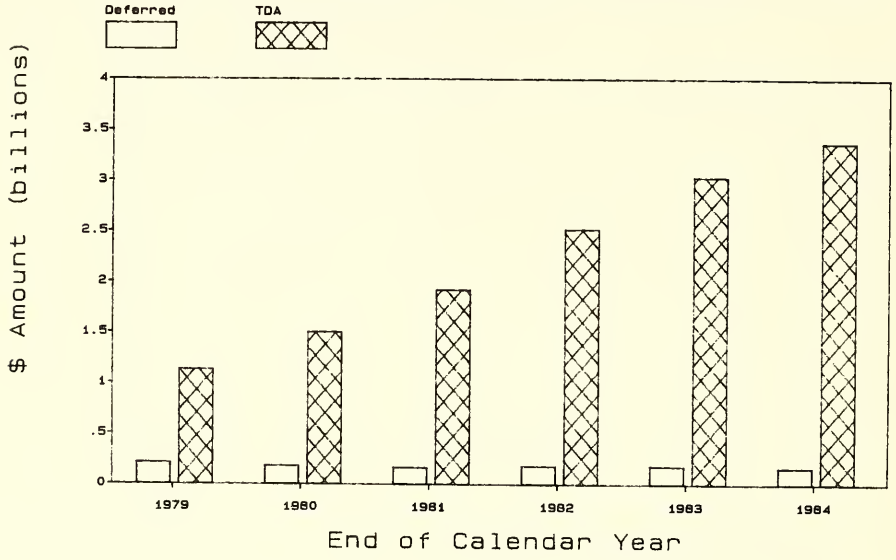
Figure 3. Comparison of the Total Dollar Amount in Deferral Inventory vs TDA Inventory - IMF

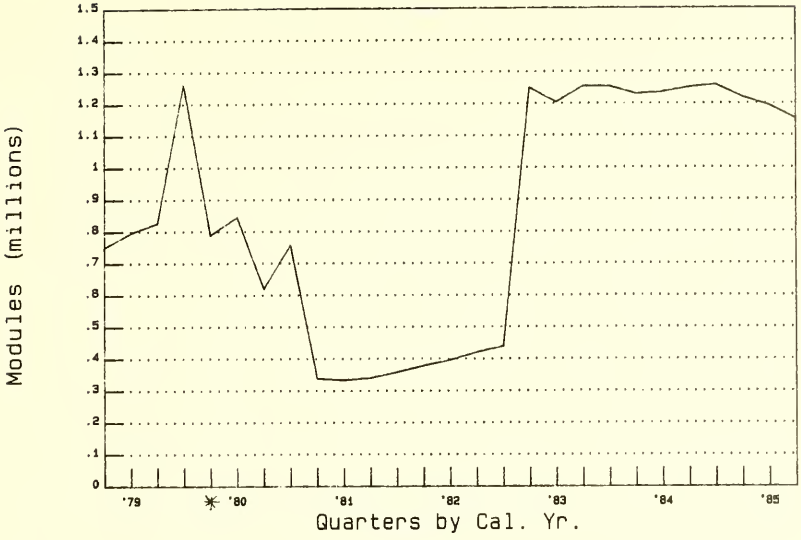


As illustrated in Figure 3., the total dollar amount in deferral inventory has not changed much over the six year period from 1979 to 1984, when compared to the total amount in TDA inventory, which has risen significantly during this period. At the end of 1979, the total dollar amount of IMF TDA inventory was approximately 5.7 times larger than the corresponding deferred account dollar inventory (i.e., $1.13 billion for IMF TDA inventory versus $0.2 billion for IMF deferral inventory). However, by the end of 1984, the total amount in IMF TDA inventory was then roughly 20 times larger than the corresponding deferred account total (i.e., $3.37 billion for IMF TDA versus $0.17 billion for IMF deferred accounts). With the mid-1985 increase in the IMF deferral level, this relationship should shift back toward deferral, somewhat, for the end of CY 1985.

Business Tax Returns

Figure 4. presents the time series data on the total number of BMF modules in deferral inventory as reported in the corresponding Master File reports. The available BMF information starts with the last quarter of 1978. We again use an asterisk on the time (horizontal) axis of Figure 4. to indicate that the BMF deferral level was raised in 1979.

Figure 4. Number of Deferred Modules in Inventory - BMF



NOTE: An '*' on the horizontal axis indicates an increase in the Deferral Level.

As can be seen in Figure 4., there is an extreme valley in the time series data from the fourth quarter of calendar year 1980 through the third quarter of CY 1982 (inclusive). These are the data points as reflected in the BMF deferred accounts reports and we could find no explanation within Collection for these apparent irregular figures. However, we believe that certain small dollar accounts were excluded from consideration during this period. Such a situation would tend to explain why the number of BMF modules in deferral inventory (i.e., Figure 4.) would appear to drop so dramatically during the period, while the corresponding dollar amount in inventory (i.e., Figure 5.) would show a similar, but much less pronounced, valley in the trend line.

If the suspect values in Figures 4. and 5. are excluded (i.e., the late 1980 through late 1982 period dropped), a clearer trend in BMF deferral inventory emerges. After rising as a result of the 1979 increase in the deferral level, the number of BMF deferred accounts in inventory stabilized at approximately 1.2 million modules from December 1982 through the second quarter of 1985 (see Figure 4.). The pattern is similar for the dollar amount in BMF deferral inventory (see Figure 5.), except that the climb to the plateau in the trend line was spread over a longer period of time.

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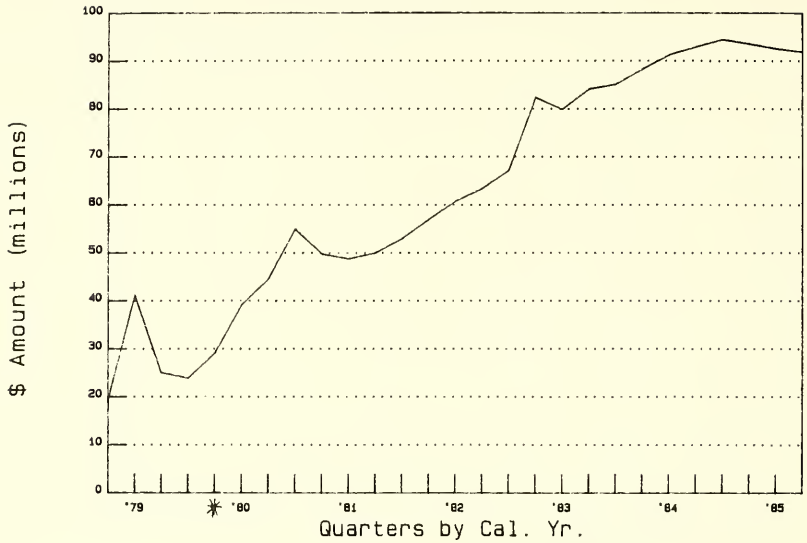
Figure 5. Total Deferral Amount in Inventory - BMF

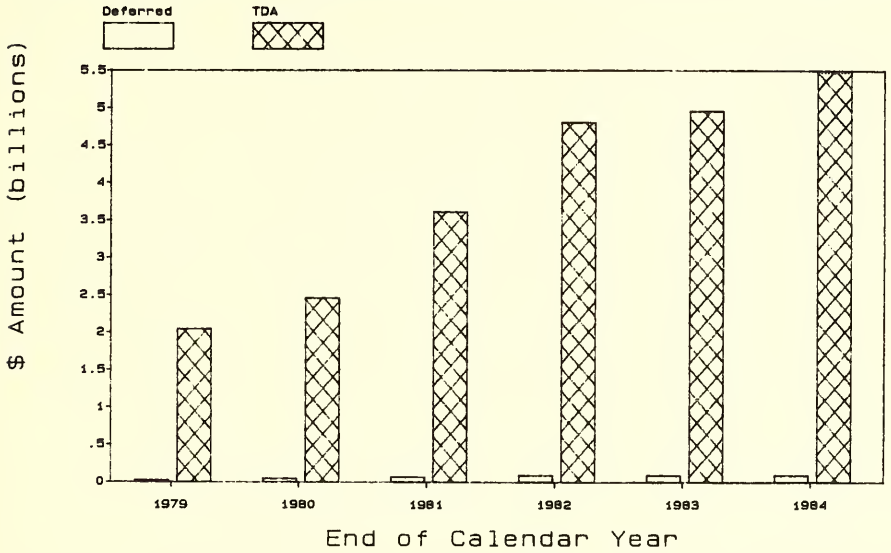


NOTE: An `*' on the horizontal axis indicates an increase in the Deferral Level.

As with the IMF, the BMF deferral level was also raised in mid-1985. Consequently, we expect the trend lines in BMF inventory to climb over a period of years starting from the end of 1985 (above the levels experienced from 1983 through early 1985), before reaching new plateaus. From there the number of modules/dollar amount in BMF inventory should stabilize again, barring future changes in the deferral program.

The relationship between BMF deferral inventory versus BMF TDA inventory parallels the IMF experience. Figure 6. presents a comparison of the total amount in BMF deferral inventory versus the total amount in BMF TDA inventory, at six points in time. From Figure 6. it is clear that the total amount in TDA inventory has risen substantially from the end of CY 1979 through the end of CY 1984, while the amount in deferral inventory has remained relatively stable by comparison. The mid-1985 increase in the deferral level should push more of the total BMF dollar amount into deferral inventory for the end of CY 1985 (vis-a-vis TDA inventory). However, we expect this to be only a marginal shift back toward deferral.

Figure 6. Comparison of the Total Dollar Amount in Deferral Inventory vs TDA Inventory - BMF



Selected Aspects of the Deferral Program

The preceding discussion provided a general overview of the deferral program and its revenue yield, as well as a time series look at the volume and dollar amount of deferred accounts in inventory. In the following section we take a closer look at some of the unique dynamics of the deferral procedure. To do so, we draw upon data compiled for three separate studies done in the area of deferred accounts, each providing a unique perspective on the program.

Removal of Deferred Accounts Over Time

In December 1984, the Collection function completed an in-depth study on the deferral levels. Among the major conclusions of that report was that Collection resource savings from raising the deferral level would more than offset the revenue loss that would result from more accounts being placed in deferral inventory (based on the assumption that the resources would be applied to alternative programs yielding more revenue). For this and other reasons the study included the recommendation that the IMF and BMF deferral levels be raised. IRS management concurred with that recommendation, and the deferral levels were raised in mid-1985.

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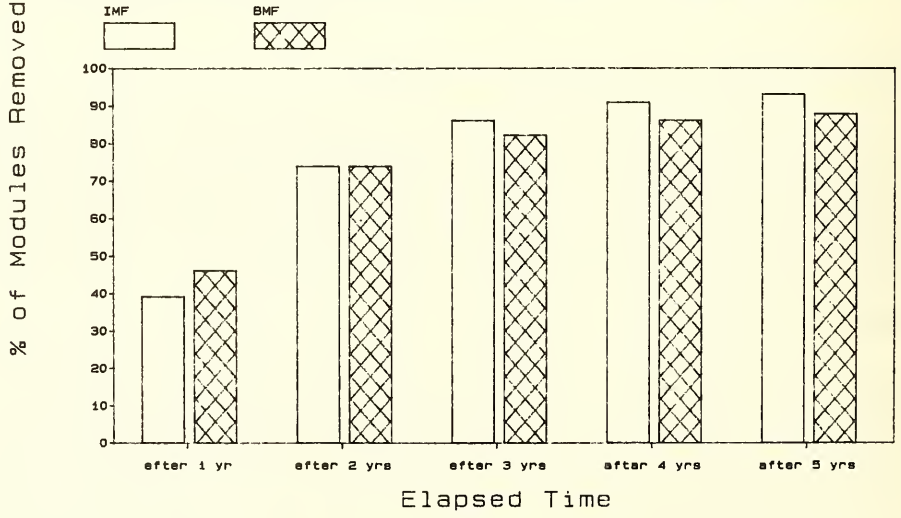
As part of that study, data were compiled on the relationship between time and the percent of accounts removed from deferred status. An account being "deferred" is really being placed in a contingency status. Typically, such an account will be "removed" from deferral inventory either because of a subsequent credit(s) which full pays the balance (such as a refund offset), or because the account is reactivated to notice/TDA status, or because the account reaches the point where the statutory period of collection has expired (i.e., six years has transpired since the original assessment was made).

Of these three conditions for removing accounts from deferred status, credits full paying the accounts are the most common (based on recent experience under the deferral level in place prior to the mid-1985 increase). Approximately 50 to 60 percent of the modules initially removed from deferred status are full paid, with the former percentage generally reflecting the BMF experience, and the latter figure, IMF. Reactivation to notice or TDA status is the next most common condition causing accounts to be removed from deferred status, with rough estimates of about 25 percent for IMF, and 35 percent for BMF. The rest are removed primarily due to statute expiration. Figure 7. summarizes the relationship between time and the percent of accounts removed from deferral.

Figure 7. Cumulative Percent of Modules Removed From Deferred Status Over Time - IMF and BMF



NOTE: Chart depicts basic relationship between time and accounts being removed from deferred status - based on accounts deferred in FY 1980.

From Figure 7. we see that a significant proportion of the accounts are subsequently removed from deferred status within a few years (based on the recent experience of accounts deferred in FY 1980). For both IMF and BMF, over 70 percent of the modules were removed after two years, and roughly 90 percent after four years. With the mid-1985 raise in the deferral level, the bars in Figure 7. will shift down somewhat, resulting in slightly fewer deferred accounts being "removed" (over the given time frame). Nonetheless, such a shift should not be so significant as to change the primary relationship being discussed, viz., that the deferral procedure is largely a temporary condition, with most accounts removed fairly soon after being deferred (with most of these being full paid with no additional Collection action).

Deferral versus TDA Issuance

In July 1984, another study was completed in the area of deferred accounts. This study was more limited in scope, focusing only on IMF deferrals that resulted from Examination assessments. The primary purpose of that study was to determine if low dollar audit assessments should be exempt from the deferral procedure, because of its potential for negating the compliance impact of the examination. The results of that study did indicate that deferral has an adverse effect on subsequent compliance (as measured in terms of timely filing and timely payment in subsequent years), when compared to TDA issuance. However, these adverse effects were relatively small. In addition, the study further concluded that deferral was still by far the more cost-beneficial procedure, even when the small adverse impact on subsequent compliance was taken into consideration. After two subsequent filing periods, Collection estimated a benefit-cost ratio of approximately $6 to $1 for deferral, versus $2 to $1 for immediate TDA issuance.

Although the main focus of the study was to determine the effects of deferral on compliance, interesting data were also compiled on the relationship between time and the amount of revenue collected. In addition, this study used an experimental research design, where accounts below the deferral level were randomly assigned to test versus control group (i.e., TDA issuance versus deferral). Thus, even though the results only apply to a unique subset of the total deferral population (i.e., IMF deferrals resulting from audit assessments), they nonetheless provide a rare opportunity to make a direct comparison between deferral and its main procedural alternative (TDA issuance). Figure 8. presents a comparison of deferral versus TDA issuance, in terms of the revenue collected after six, twelve, eighteen and twenty-four months.

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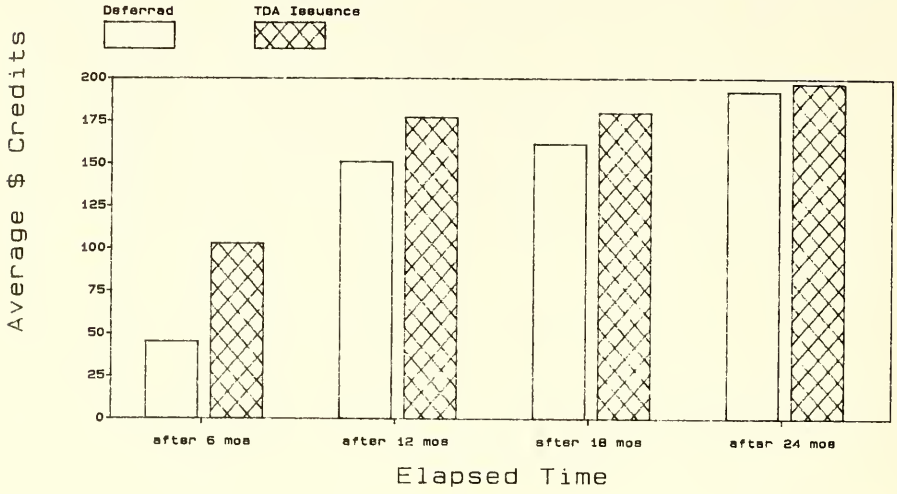
Figure 8. Comparison of Deferral vs TDA Issuance in Terms of Average Credits per Module After 6, 12, 18 and 24 Months - Selected IMF Accounts



NOTE: Results relate to low dollar IMF audit assessments, only. Dollar credits are the sum of payments, offsets and abatements.

Figure 8. illustrates that for lower dollar delinquencies, the deferral procedure will yield nearly the same amount of credits per case after two years, as would TDA issuance--just not as quickly. Thus, in light of the significant cost advantage of the deferral procedure over immediate TDA issuance, the former program is clearly the preferable option in handling smaller accounts. However, we should again note that the results in Figure 8. relate specifically to low dollar IMF audit assessments under the old deferral level (i.e., prior to the 1985 increase). In the original 1984 study, such cases were estimated to be approximately 26 percent of the total IMF accounts deferred in FY 1981.

Selected Characteristics of BMF Deferred Accounts

The final study we wish to discuss deals with the characteristics of BMF accounts reaching deferred status. This Collection analysis was completed in July 1985, and reflects the results of a random sample of calendar year 1982 BMF balance due first notices that eventually went to deferred status. Although the results from this particular study relate to the deferral level in place just prior to the mid-1985 increase, we believe that the information is reasonably indicative of the current experience as well.

One of the more interesting insights to emerge from that study is the comparison of the type of business tax return being deferred (e.g., Form 941 vs. Form 1120, etc.) by the cause of the assessment (e.g., insufficient remittance, audit assessment, penalty and interest assessment, etc.). Table 1. below presents the findings.

Table 1. Cross Tabulation of Type of Business Tax by Cause of Assessment - 1982 BMF Balance Due Accounts Reaching Deferred Status

Type of Tax	Cause of the Assessment: Balance Due	Audit/Data Processing Adjustment	Penalties and Interest	Interest Only	Penalty Only	Other	Total
Form 941	38.0% (11.5%)	9.1% (0.8%)	52.1% (39.2%)	43.5% (2.8%)	94.0% (43.9%)	100% (1.7%)	58.9% (100%)
Forms 942 & 943	11.1% (27.9%)	3.0% (2.3%)	10.1% (62.8%)	8.7% (4.7%)	0.6% (2.3%)	0.0% (0.0%)	7.1% (100%)
Form 940	35.2% (28.8%)	78.8% (19.7%)	22.5% (45.5%)	21.7% (3.8%)	1.8% (2.3%)	0.0% (0.0%)	21.9% (100%)
Form 1120	5.5% (20.7%)	6.1% (6.9%)	5.6% (51.7%)	13.0% (10.3%)	1.8% (10.3%)	0.0% (0.0%)	4.8% (100%)
Other	10.2% (25.0%)	3.0% (2.3%)	9.7% (59.1%)	13.0% (6.8%)	1.8% (6.8%)	0.0% (0.0%)	7.3% (100%)
Total	100% (17.9%) n = 108	100% (5.5%) n = 33	100% (44.3%) n = 267	100% (3.8%) n = 23	100% (27.5%) n = 166	100% (1.0%) n = 6	100% (100%) n = 603

NOTES: Figures in parentheses reflect "row" percentages; if any part of the deferred amount resulted from the initial tax liability not being full paid with the return, the case was classified as "balance due".

From Table 1. we can see that the majority of the BMF modules reaching deferred status consist of the Forms 941, the Employers Quarterly Federal Tax Return (i.e., 58.9% - see last column, top row). This is not surprising, since most Forms 941 are filed on a quarterly basis. Perhaps more interesting is the indication that the vast majority of the BMF modules reaching deferred status relate strictly to penalty and/or interest assessments. Over 75 percent of all the BMF modules related specifically to penalty and interest (see "total" row, columns 3 thru 5).

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Conclusion

This article provided an overview of the deferred accounts program, as well as some specific insights into its relationship to TDA inventory. In it we showed that while the total (IMF and BMF) dollar amount in deferral inventory was approximately $0.3 billion at the end of calendar year 1984, this represented less than 4 percent of the corresponding total amount in TDA inventory ($8.9 billion). Throughout the article we tried to emphasize that the deferral program involves a highly dynamic set of conditions that are quite efficient for processing lower dollar accounts, and that the approach is far from a "dumping ground" for small size delinquencies. However, as with any IRS program, continual efforts should be made to monitor and experiment with the deferral procedure to see if additional improvements can be achieved.

Notes and References

1. Data presented in Figures 1. thru 6., plus information on yield from deferred accounts and TDAs were supplied by the Office of the Assistant Commissioner (Collection), the Office of Evaluation and Research OP:C:E.

2. Figures on the removal of modules from deferred status over time and references to the report containing the recommendations to raise the deferral level are from the December 1984 report entitled, "TDA Deferral Levels" by OP:C:E.

3. Data on the cost-benefit analysis of deferral versus TDA issuance are based on the July 1984 report entitled, "Test of Low Dollar Examination Assessment Delinquencies" by OP:C:E.

4. Data on the characteristics of BMF accounts that reached deferred status are based on the July 1985 OP:C:E report of the same name.

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Characteristics of Statute Expired Cases

by
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In most situations, the IRS has six years to collect a tax assessment. After that six year period, any remaining liability is then written off as statute expired. However, in comparison to total net tax collections, the amount written off as statute expired is actually very small. This article takes a closer look at the trend in total statute expired amounts and some of the characteristics of the cases that reach the statute expiration date.

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Introduction

With some exceptions, once a tax assessment has been made the IRS has essentially six years to collect that debt before the account reaches the statute expiration date. In calendar year 1984 (the most recent period for which data are available) approximately 153,000 individual tax return assessments and 273,000 business tax assessments were reported as statute expired. These assessments reflected roughly $295 million and $461.5 million in unpaid liabilities, respectively.

These dollar figures obviously represent substantial sums of money. However, it is important to place them into context. Consider the following figures:

Total Statute Expired Amount (CY 1984)	-	$756,500,000
Net Tax Collections (FY 1978)	-	$360,500,000,000
Total Accounts Receivable (FY 1978)	-	$9,700,000,000
Statute Expired as a percent of Net Tax Collections	-	0.2%
Statute Expired as a percent of Accounts Receivable	-	7.8%

As can be seen from the above figures, in fiscal year 1978 (roughly the period when most of these 1984 statute expired accounts were originally assessed, i.e., due) the Service reported total net tax collections of approximately $360.5 billion. The total accounts receivable amount for that fiscal year, i.e., the outstanding balance after taking into consideration prepaid credits such as withholding, estimated tax payments and remittances with the return, was approximately $9.7 billion. Thus, the $756.5 million in total statute

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expired reflects less than one-half-of-one-percent of the net tax collections figure for that year, and about 7.8 percent of the accounts receivable. Although these comparisons of calendar year statute expired amounts to fiscal year net tax collections and accounts receivable are simplifications (based on the available data), they nonetheless dramatize the point that there is nothing alarming about the size of statute expired accounts, per se.

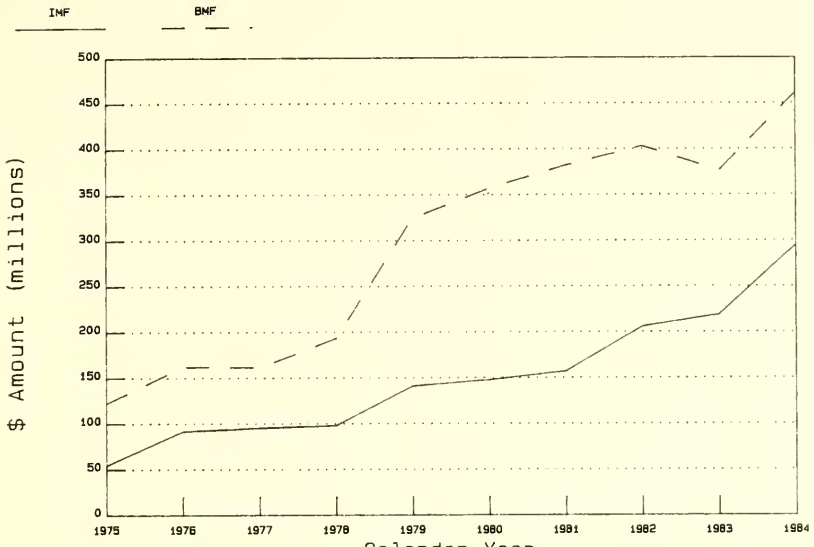
With this note in mind, the following article presents a closer look at some of the characteristics of statute expired accounts. First we present the time series data on the total statute expired amounts for 1975 through 1984, drawing upon figures compiled as part of Collection's ongoing management information reports. We then provide a more detailed profile of accounts reaching statute expiration, considering such characteristics as the tax year of the assessment, the distribution of these accounts by dollar size and their status prior to expiration, as well as some comparisons to the general return population. This more in-depth profile of statute expired accounts is based largely on special extracts from the Individual Master File (IMF) and the Business Master File (BMF). These extracts consisted of random samples of 9,525 IMF modules (returns) and 21,327 BMF modules whose statutes expired sometime during calendar year 1984.

Total Statute Expired Amounts--1975 to 1984

Consistent time series information on statute expired accounts begins with calendar year 1975. These data are based on Master File reports produced annually. Figure 1. presents the trend line for the total statute expired dollar amounts for 1975 to 1984, by IMF and BMF.

From Figure 1. we can see that there has been general growth in the total statute expired amounts from 1975 to 1984. For IMF, the total amount went from approximately $54 million in 1975 to roughly $148 million in 1980, to $295 million in 1984. The BMF side has experienced similar growth. We expect this pattern to continue into the future reflecting, to a large extent, the continued growth in returns filed (and taxes owed). For example, the total net tax collections figure of $360.5 billion in 1978 grew to $595.9 billion in 1984, while the total balance due (accounts receivable) amount went from about $9.7 billion in 1978 to more than $27 billion in 1984.

Figure 1. Total Statute Expired Amount
1975 to 1984 - IMF and BMF



Statute Expired Accounts--A Profile

In the remainder of the article we present a more detailed picture of accounts reaching statute expiration based primarily on our Master File sample of 1984 cases. It is recognized that this profile reflects a "snap shot in time", and thus provides little basis for projections into the future. Nonetheless, we also believe that it is still useful to consider such data both to understand more fully our current situation and to provide a basis for future comparisons.

Tax Year of Assessment

As noted earlier, most tax liabilities for which the statute expired in 1984 were originally assessed in 1978 (i.e., 1978 + 6 years = 1984). Because of the timing involved in the filing of returns, this generally means that the "tax year" (or "tax period") of a return assessed in 1978 is the preceding year. For example, most tax year 1977 Individual Income Tax returns were filed between January and April of 1978, at which time the initial liability was assessed (and the statute expiration period began "ticking").

However, there are several situations that result in exceptions to this general relationship among "tax year", "year of assessment" and the "statute expiration date". Such situations include, for example, late (delinquent) returns filed after the return due date, Examination assessments made a few years after the return has been filed, and litigation which extends the statute of limitations. All of these conditions can cause the "tax period" in question to be older than the "normal" six (or seven) year time lag one would expect. Table 1. presents the distribution of our sample of CY 1984 statute expired cases by the tax year of the return.

Table 1. Distribution of CY 1984 Statute Expired Accounts by Tax Year of Return

Tax Year of Return	Percent of IMF Statute Expired Cases	Percent of BMF Statute Expired Cases
1978	0.0%	26.0%
1977	32.4%	44.5%
1976	30.0%	14.5%
1975	24.9%	7.4%
1974	5.3%	3.5%
1973	2.8%	1.6%
1972 and prior	4.6%	2.4%
Total	100%	100%
(Population Figures)	(N=153,494)	(N=273,068)

From Table 1. we see that a plurality of accounts expiring in 1984 were for tax year 1977 (i.e., 32.4 percent for IMF and 44.5 percent for BMF). Nonetheless, there is still quite a substantial distribution of cases across the other tax years as well. Note also that because some business returns are quarterly, there is a sizable percentage of tax year (i.e., "tax period") 1978 BMF returns which expired in CY 1984 (26.0 percent).

Statute Expired Amount

The ongoing Collection management information reports on statute expired cases enable you to compute the average unpaid liability written off in a given year (e.g., IMF=$1,928 and BMF=$1,690 for CY 1984). However, this does not tell you how these cases are distributed across various dollar ranges. Table 2. provides such a distribution based on our Master File samples of CY 1984 statute expired accounts. From this table we can see that the majority of these accounts are for relatively small amounts. For the IMF statute expired cases, 58.4 percent were for $500 or less. On the BMF side, 60.1 percent were $500 or less.

Table 2. Distribution of CY 1984 Statute Expired Accounts by Statute Expired Amount

Statute Expired Amount	Percent of IMF Statute Expired Cases	Percent of BMF Statute Expired Cases
$100 or less	21.2%	33.3%
$101 to $200	15.0%	10.6%
$201 to $500	22.2%	16.2%
$501 to $1000	16.1%	12.2%
$1,001 to $2,000	11.1%	10.9%
$2,001 to $5,000	8.5%	9.8%
$5,001 to $10,000	3.0%	4.1%
$10,001 to $20,000	1.5%	1.7%
over $20,000	1.4%	1.1%
Total	100%	100%
(Population Figures)	(N=153,494)	(N=273,068)

Status Prior to Statute Expiration

Open delinquent accounts approaching statute expiration have traditionally received priority attention by Collection personnel to ensure that all the appropriate actions have been taken. A rough indication of this organizational concern is revealed by examining the status of accounts just prior to their statutes expiring. Tables 3. and 4. present such data for IMF and BMF accounts, respectively. These data are again based on our Master File samples of CY 1984 statute expired cases and relate to both the percent of total cases and the percent of total statute expired dollar amount.

Table 3. reveals some rather interesting insights into statute expired cases on individual returns. For one, a plurality of the cases (42.3 percent) and the majority of the dollar amount (64.4 percent) of IMF statute expired cases relate to accounts closed currently not collectible because of hardship conditions. Another interesting characteristic is that even though a sizable percentage of the IMF cases were in deferred status when their statutes expired (31.3 percent), they accounted for only 1.4 percent of the total amount written off. Table 3. also indicates the operational effects of emphasizing the processing of accounts approaching statute expiration, in that only two percent of all IMF cases were still being worked (i.e., "open") when the accounts expired.

Table 3. Distribution of the Number and Dollar Amount of CY 1984 Statute Expired Accounts by Status Prior to Expiration - IMF

Status Prior to Statute Expiration	Percent of IMF Statute Expired Cases	Percent of IMF Statute Expired Dollar Amount
Hardship	42.3%	64.4%
Deferred	31.3%	1.4%
Unable to Locate/Contact	17.5%	15.4%
Decedent	3.5%	3.2%
Misc. Closed	3.3%	13.5%
Open	2.0%	2.1%
Total	100%	100%
(Population Figures)	(N=153,494)	(Amount = $295 mil.)

Table 4. Distribution of the Number and Dollar Amount of CY 1984 Statute Expired Accounts by Status Prior to Expiration - BMF

Status Prior to Statute Expiration	Percent of BMF Statute Expired Cases	Percent of BMF Statute Expired Dollar Amount
Hardship	19.1%	14.3%
Deferred	22.6%	0.7%
Unable to Locate/Contact	8.6%	3.8%
Decedent	1.1%	0.4%
Defunct Corporation	39.4%	56.9%
Bankrupt Corporation	5.3%	7.2%
Misc. Closed	2.4%	11.2%
Open	1.4%	5.4%
Total	100%	100%
(Population Figures)	(N=273,068)	(Amount = $461.5 mil.)

NOTE: Hardship status means that the case has been closed currently not collectible because additional collection efforts would result in the taxpayer not being able to meet necessary living expenses. Deferred is a special computer monitored status for low dollar delinquencies which keeps them out of active Collection inventory.

From Table 4. we see some of the same patterns for BMF statute expired accounts that were highlighted for the IMF. For example, BMF accounts in deferred status when their statutes expired comprise a sizable proportion of the number of cases (22.6 percent) yet, a minor portion of the total amount (0.7 percent). In addition, we also find that few BMF cases were open when the statutes expired (1.4 percent).

However, Table 4. also reveals some characteristics unique to businesses. For example, the plurality of BMF statute expired accounts (44.7 percent) were closed currently not collectible because the corporation was defunct or bankrupt. This condition reflected 64.1 percent of the total BMF statute expired amount.

In addition, it should also be noted that the "100 Percent Penalty" provisions impact the interpretation of some of the BMF liabilities summarized in Table 4. The 100 Percent Penalty provisions enable the IRS to pursue collection of certain "business" trust fund liabilities (primarily those relating to delinquencies on Forms 941) as if they were "individual" assessments against the responsible person(s) previously with the company. Because of this, part of the monies referenced in Table 4. as "statute expired" may have in fact been collected separately under a different enforcement effort, though such collections could not be incorporated into the above BMF figures. Thus, the figures cited in Table 4. (and elsewhere in this article) somewhat overstate the actual amount of BMF liabilities written off due to statute expiration.

Type of Return Filed

From our Master File sample it is possible to breakdown the statute expired accounts by the type of return filed (i.e., Form 1040A, Form 1040, Form 941, etc.). In addition, using historical data compiled for use in projecting the number of returns to be filed (i.e., for IRS Document 6186), we can also compare these statute expired accounts to the general return population from which most of them arose. For reasons discussed earlier, we use as our comparison the population of returns filed in 1978 (which equates primarily to tax year 1977). These comparisons are presented in Figures 2. and 3. which reflect the IMF and BMF results, respectively.

As can be seen from Figure 2., Forms 1040A comprise a larger percentage of the general IMF return population (39.0 percent) than they do of the IMF statute expired accounts (17.5 percent). Since Forms 1040A generally reflect smaller dollar liabilities (which are in turn more likely to be full paid), it is to be expected that they would comprise a smaller portion of statute expired. Similarly, the fact that non-farm sole proprietors (i.e., Forms 1040 with Schedule C) comprise a higher percentage of the statute expired cases (approximately 30 percent) than they do of the general population (only about 9 percent) is also not surprising, given the financial risks associated with operating your own business.

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Figure 2. Comparison of CY 1984 Statute Expired Accounts vs the General 1977 Return Population by Type of Return Filed - IMF

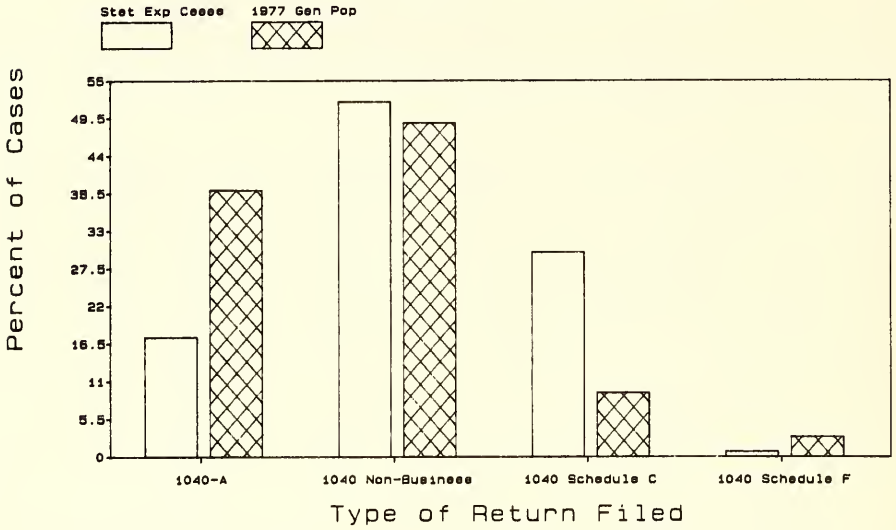
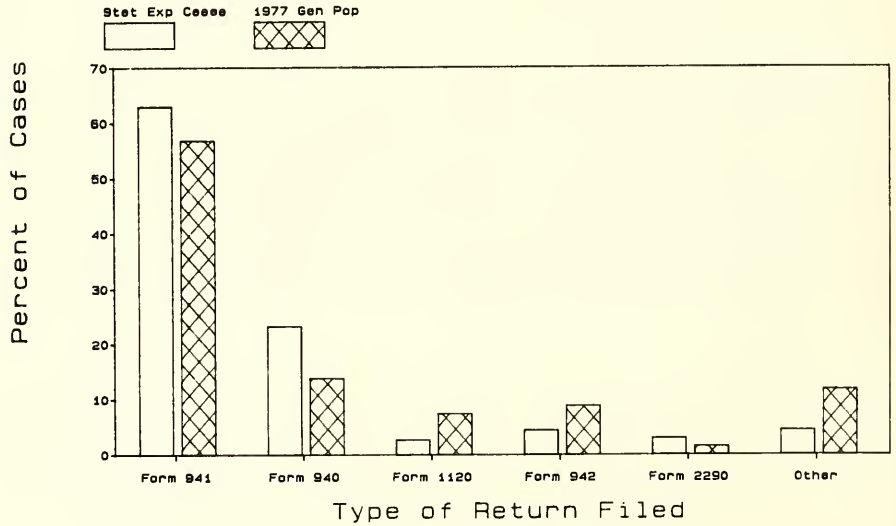


Figure 3. Comparison of CY 1984 Statute Expired Accounts vs the General 1977 Return Population by Type of Return Filed - BMF



The BMF comparison (Figure 3.) shows more of a match between the percent of statute expired cases and the percent of general BMF returns population (by each of the various types of returns). For example, the majority of BMF returns in the general return population relate to Forms 941 (i.e., 56.8 percent), which is also the case for statute expired cases (62.8 percent). Still, the match is not exactly equal as can be seen in the bar chart.

Type of Business Activity--IMF Business Returns

In this final section we compare the IMF statute expired accounts to the general return population, in terms of the type of business activity. We include in this analysis only that portion of the IMF return population where a Form 1040 has been filed with a Schedule C and/or Schedule F attached. We estimate that such cases comprise 30.6 percent of the 1984 IMF statute expired cases (or about 47,000 accounts) and approximately 12.2 percent of the 1977 general IMF return population (or 10.6 million returns). The breakdown of the general IMF return population by business activity is based on the 1977 Statistics of Income for Sole Proprietorship Returns. (Note that the available data did not permit a reliable comparison of the same nature for BMF.)

Table 5. Comparison of CY 1984 Statute Expired Accounts Versus the General 1977 Return Population by Type of Business Activity IMF Business Returns

Type of Industry Activity	Percent of 1984 Statute Expired Accounts	Percent of 1977 Return Population
Services	30.0%	28.9%
Construction	21.5%	9.0%
Retail Trade	20.0%	16.5%
Finance, Insurance and Real Estate	10.5%	7.9%
Transportation and Utilities	6.4%	3.5%
Agriculture, Forestry and Fishing	3.7%	28.0%
Mining	3.3%	0.6%
Other	4.6%	5.6%
Total	100%	100%

From Table 5. we see that there are certain types of businesses where there is a sharp difference between their percentage in the general return population versus their proportion in the statute expired cases. Perhaps of most interest is construction, which comprises nine percent of the general IMF business return population but over 21 percent of the statute expired accounts. Conversely, agriculture, forestry and fishing, which make up 28 percent of the IMF business returns, comprise less than four percent of the corresponding statute expired cases.

Conclusion

We intended this article as a brief look at statute expired accounts. In it we showed that the amount of tax liabilities for which the statute expires is actually a minute percentage of total net tax collections and only a small proportion of the total accounts receivable. We also identified the general growth in total statute expired amounts, and our expectation that this trend will continue. Finally, we provided a profile of these accounts based on a representative sample of 1984 statute expired cases. Among other characteristics, this profile revealed that most statute expired accounts are for small dollar amounts. It also showed that, while a sizable proportion of the statute expired population is comprised of deferred accounts, deferrals actually accounted for an extremely small percentage of the total dollar liability written off.

Notes and References

1. Data presented in Figure 1. and related references to the total number and dollar amount of statute expired accounts are based on information supplied by the Office of the Assistant Commissioner (Collection), the Office of Evaluation and Research OP:C:E.

2. The Master File samples of IMF and BMF statute expired cases were secured in conjunction with the July 1985 report entitled, "Characteristics of Statute Expired Cases" by OP:C:E.

3. Data on net tax collections are from the 1978 and 1984 versions of the Annual Report of the Commissioner of the Internal Revenue Service. Data on total accounts receivable were supplied by OP:C:E.

4. The breakdown of the general return population by type of return filed is based on historical data maintained by the Projections and Forecasting Group for use in preparing IRS Document 6186.

5. The breakdown of the general IMF business returns by type of business activity is based on the 1977 Statistics of Income for Sole Proprietorship Returns.

A Comparison of the Average Delinquency Rate for All Counties in the United States for Calendar Year 1983

by
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The average number of delinquent account cases per 100 individual taxpaying entities varies substantially across counties in the United States. The southern and western states exhibit the highest proportional delinquency rates, while the midwestern and northeastern states exhibit the lowest delinquency rates. At the state level, allocation of Collection's Revenue Officer resources are generally well aligned with individual delinquency rates, although some exceptions exist because of other factors involved in resource allocation.

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Introduction

Average delinquency rates in the United States vary substantially across counties in the United States. This article compares the average number of individual delinquent account entities per 100 individual taxpayer entities for all counties in the United States, to focus attention on the relative noncompliance rates of taxpayers on a geographic basis.

For this article, the average delinquency rate is defined as the number of individual taxpayer delinquent accounts (TDAs) plus deferred accounts (deferrals) on an entity basis divided by the number of individual taxpaying entities.[1/] A taxpayer delinquent account is issued approximately four to six months after a taxpayer files a tax return if he does not fully pay tax due. A deferred account is identical to a TDA, except that the amount owed is less and is temporarily withheld from field collection. In calendar year 1983 (CY1983), 1.6 million individual TDAs and 1 million individual deferred accounts were issued. For comparison, there were 95.7 million taxpaying entities that filed an individual tax return (Form 1040, 1040A, 1040EZ, or 1040PR/SS) in CY1983. Calendar year 1983 data are used throughout this analysis because this is the most recent year for which county level delinquent account data are available.

State Highlights

Table 1. presents the average number of delinquent accounts per 100 individual taxpaying entities by state for CY1983. Figure 1. is a map of the same data. As illustrated by the table and figure, states in the Northeast and Midwest have lower delinquency rates compared to states in the South and West.

Table 1. Average Number of Delinquent Accounts Per 100 Individual Taxpaying Entities by State, CY1983

STATE	AVERAGE	STATE	AVERAGE
ALASKA	5.35	NEW MEXICO	2.18
DISTRICT OF COLUMBIA	4.84	MISSOURI	2.16
NEVADA	4.30	NEW YORK	2.16
CALIFORNIA	3.53	KENTUCKY	2.15
MISSISSIPPI	3.23	ILLINOIS	2.07
GEORGIA	3.12	NEW JERSEY	2.03
TEXAS	3.09	HAWAII	1.92
MARYLAND	3.07	MASSACHUSETTS	1.84
NORTH CAROLINA	3.06	CONNECTICUT	1.81
IDAHO	3.05	KANSAS	1.77
UTAH	3.04	MAINE	1.77
ARIZONA	2.94	MICHIGAN	1.76
OREGON	2.90	RHODE ISLAND	1.65
FLORIDA	2.86	NEBRASKA	1.62
SOUTH CAROLINA	2.81	OHIO	1.62
LOUISANA	2.77	NORTH DAKOTA	1.60
OKLAHOMA	2.77	NEW HAMPSHIRE	1.57
VIRGINIA	2.72	PENNSYLVANIA	1.52
COLORADO	2.61	MINNESOTA	1.48
MONTANA	2.56	VERMONT	1.48
ALABAMA	2.53	WISCONSIN	1.48
WYOMING	2.42	WEST VIRGINIA	1.46
DELAWARE	2.41	INDIANA	1.27
WASHINGTON	2.36	IOWA	1.23
TENNESSEE	2.33	SOUTH DAKOTA	1.21
ARKANSAS	2.24		

The average delinquency rate for all counties in the United States is 2.2 percent. The median (i.e., the point at which half the counties have a higher rate and half have a lower rate) is 1.7 percent Approximately 12.6 percent of the counties in the United States have delinquency rates higher than 4 percent.

Figure 1. Average Number of Delinquent Accounts Per 100 Individual Taxpaying Entities, CY1983

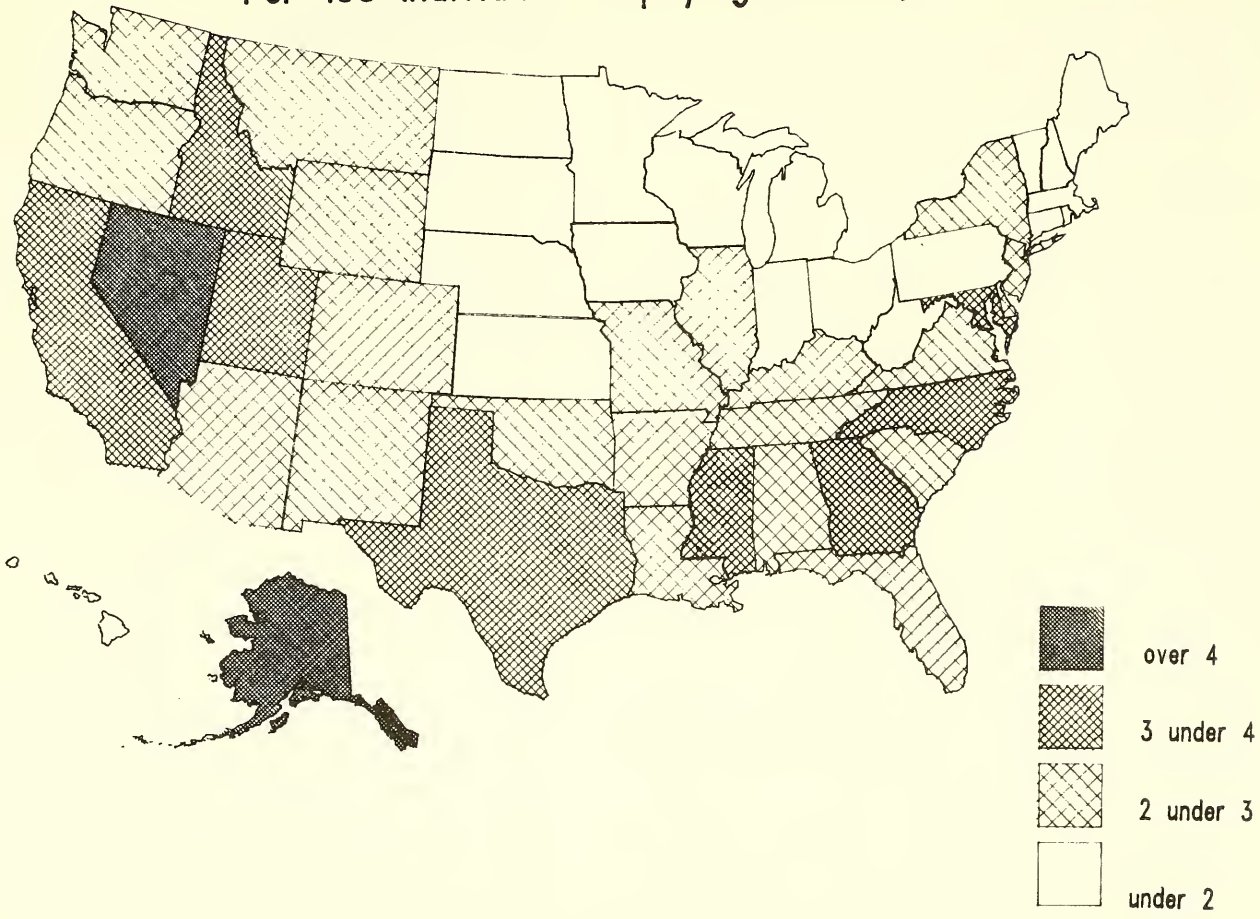

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Table 2. lists those states with the most and the least number of counties with delinquency rates over 4 percent. Those states in the first column have at least 20 percent of their counties with delinquency rates higher than 4 percent. Conversely, those states in the second column have less than 5 percent of their counties with over 4 percent delinquency rates. County level data for Alaska was not available. However, Alaska was broken into four regions.

Table 2. States with the Most and Least Number of Counties with Delinquency Rates Over 4 Percent

Most Delinquent	Least Delinquent
Alaska	Rhode Island
Delaware	New Hampshire
Mississippi	Hawaii
California	Iowa
Vermont	Ohio
North Carolina	Pennsylvania
Oregon	New York
Idaho	Michigan
Nevada	West Virginia
Georgia	North Dakota
Florida	Illinois
Colorado	Indiana
Arizona	South Dakota
Texas	New Jersey
Virginia	

Comparison of the Distribution of Revenue Officers Per 100 Individual Taxpaying Entities vs. Average Delinquency Rates

To assess whether the IRS is distributing its Revenue Officer (RO) staffing in proportion to noncompliance patterns, an analysis was done of the relative concentration of Revenue Officers and of delinquent accounts by state. Figure 2. presents the average number of delinquent accounts per 100 individual taxpaying entities by state for CY1983 with states shaded by quartiles, such that the twelve states with the highest average delinquency rates are shaded darkest, the next thirteen are shaded slightly less dark, and so on. Figure 3. presents the average number of ROs per 100,000 individual taxpaying entities by state for CY1983. It is also divided by quartiles, with the same shading pattern as above. If enforcement resources and noncompliance patterns were distributed in complete consonance with each other, these two maps would exactly overlay each other.

Figure 2. Average Number of Delinquent Accounts Per 100 Individual Taxpaying Entities, CY1983

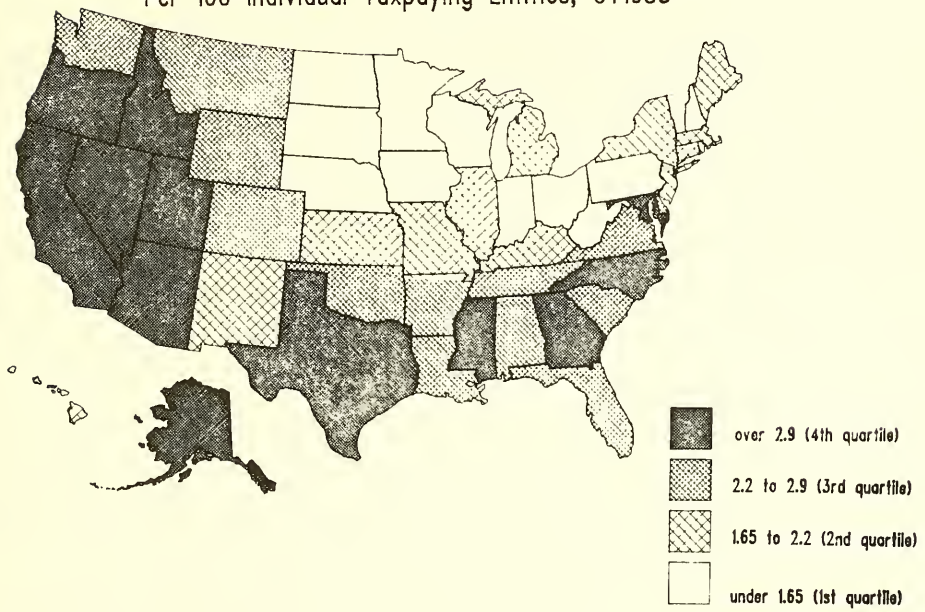
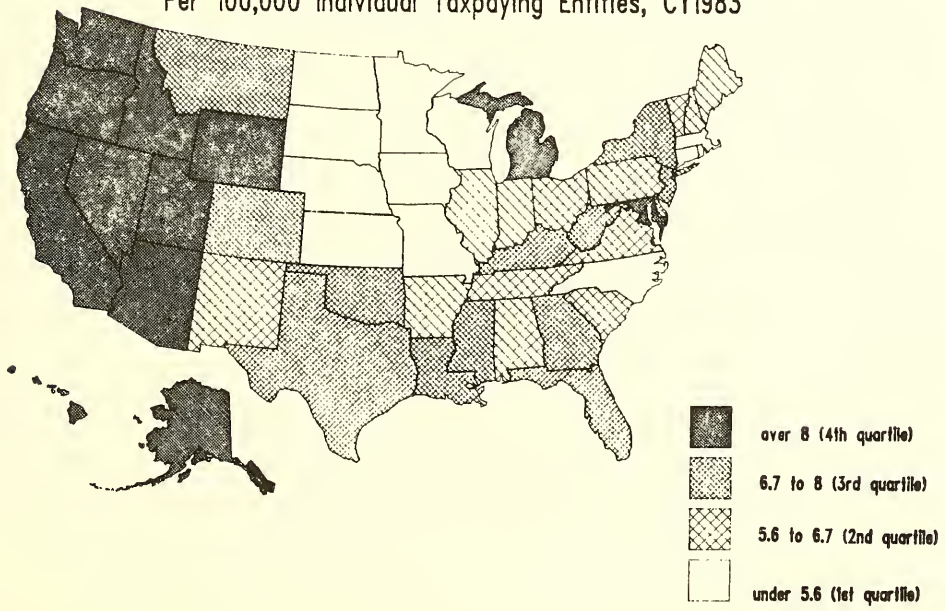


Figure 3. Average Number of Revenue Officers Per 100,000 Individual Taxpaying Entities, CY1983



Overall, it appears as though RO resources are well distributed to districts relative to the delinquent taxpaying population. In practice, ROs are distributed to the regions based primarily on four factors: (1) current inventory, which includes delinquent return investigations as well as TDAs; (2) anticipated workload; (3) mandatory return investigations generated by the Returns Compliance Program; and, (4) the predicted difficulty of work. Once ROs are allocated to the regions, regional management may also consider local needs in their redistribution formulas. Thus, many factors, in addition to delinquency rates for individuals, are considered in the allocation of resources.

On the basis of delinquency rates only, four states differ between the two maps by two or more quartiles--Hawaii, Michigan, North Carolina, and West Virginia--indicating a proportionate mismatch between relative delinquency rates and distribution of enforcement resources. Three of the states appear to have a proportionate overrepresentation of ROs--Hawaii, Michigan and West Virginia. These states all have relatively low average numbers of delinquent accounts per 100 individual taxpaying entities, but relatively high average numbers of ROs per 100,000 individual taxpaying entities. In Michigan and West Virginia, part of this discrepancy can be attributed to extra staffing allocated to those states by the National Office to correct for deficiencies noted in a management review. North Carolina, conversely, appears to have disproportionately fewer ROs. Although North Carolina has one of the highest average delinquency rates in the United States, it has one of the lowest average number of ROs per 100,000 individual taxpaying entities.

County Highlights

When the counties are sorted by the average delinquency rate, some interesting patterns are observed. First, no county among the 100 most delinquent counties is very large. The average number of individual entities among these 100 counties is approximately 3,000, and the most populous county among these 100 counties has only 15,000 individual entities. Second, fully 73 of the 100 most delinquent counties are from the Southeast, Southwest and Western Regions. There are no counties from the North-Atlantic Region in this list of the 100 most delinquent counties. The Central, Mid-Atlantic and Midwest Regions have 7, 9 and 11 counties respectively in this list. However, it must be noted that the smaller the number of individual entities in a county, the greater chance there is for error in an individual county average delinquency estimate because of the relatively small size of the sample data base used for this analysis.

Estimates for the larger counties are much more reliable. Table 3. presents the average delinquency rate for the 100 largest counties (in terms of the number of individual entities) in the United States for CY1983, ranked by the magnitude of the average delinquency rate. Note that counties in the North-Atlantic, Mid-Atlantic, Central

and Midwest Regions are predominantly in the lower half of the table with an average delinquency rate of less than 2.5 percent, while counties in the Southeast, Southwest and Western Regions are predominantly in the upper half of the table with an average delinquency rate of greater than 2.5 percent

Taken together, these data suggest that there may well be local characteristics of the filing population which are indicative of relative compliance. Although data were not immediately available for this analysis, further research could be done to correlate delinquency rates at the county or ZIP code level with local economic and demographic patterns. Such a comparison may reveal whether income level, degree of urbanization, dominant form of employment or other factors are related to non-compliance levels.

Table 3. Average Delinquency Rate for the 100 Counties With the Most IMF Returns in the United States, CY1983

COUNTY	STATE	REGION	RETURNS	AVERAGE
D. C.		MID-ATLANTIC	299,835	4.84%
PRINCE GEORGES	MARYLAND	MID-ATLANTIC	283,231	4.75%
RIVERSIDE	CALIFORNIA	WESTERN	271,056	4.71%
CLARK	NEVADA	WESTERN	222,836	4.58%
FULTON	GEORGIA	SOUTHEAST	284,061	4.26%
BALTIMORE CITY	MARYLAND	MID-ATLANTIC	416,486	3.97%
FRESNO	CALIFORNIA	WESTERN	195,911	3.91%
SAN BERNARDINO	CALIFORNIA	WESTERN	356,802	3.84%
ORLEANS	LOUISIANA	SOUTHEAST	207,461	3.80%
ALAMEDA	CALIFORNIA	WESTERN	504,389	3.78%
ORANGE	CALIFORNIA	WESTERN	915,243	3.71%
HARRIS	TEXAS	SOUTHWEST	1,098,669	3.68%
OKLAHOMA	OKLAHOMA	SOUTHWEST	256,383	3.64%
BRONX	NEW YORK	NORTH-ATLANTIC	379,312	3.61%
LOS ANGELES	CALIFORNIA	WESTERN	3,101,119	3.57%
DE KALB	GEORGIA	SOUTHEAST	211,021	3.39%
DADE	FLORIDA	SOUTHEAST	666,719	3.36%
SANTA CLARA	CALIFORNIA	WESTERN	599,826	3.35%
ORANGE	FLORIDA	SOUTHEAST	219,295	3.35%
SHELBY	TENNESSEE	SOUTHEAST	306,566	3.33%
ESSEX	NEW JERSEY	MID-ATLANTIC	324,455	3.30%
DALLAS	TEXAS	SOUTHWEST	770,740	3.30%
SAN DIEGO	CALIFORNIA	WESTERN	818,001	3.28%
CONTRA COSTA	CALIFORNIA	WESTERN	294,561	3.20%
VENTURA	CALIFORNIA	WESTERN	236,862	3.19%
TRAVIS	TEXAS	SOUTHWEST	201,081	3.18%
TARRANT	TEXAS	SOUTHWEST	418,819	3.17%

Table 3 (continued). Average Delinquency Rate for the 100 Counties With the Most IMF Returns in the United States, CY1983

COUNTY	STATE	REGION	RETURNS	AVERAGE
DAVIDSON	TENNESSEE	SOUTHEAST	208,576	3.14%
SAN FRANCISCO	CALIFORNIA	WESTERN	457,418	3.13%
DUVAL	FLORIDA	SOUTHEAST	259,484	3.09%
TULSA	OKLAHOMA	SOUTHWEST	222,611	3.09%
SALT LAKE	UTAH	SOUTHWEST	236,151	3.07%
MARICOPA	ARIZONA	SOUTHWEST	698,413	3.04%
SUFFOLK	MASSACHUSETTS	NORTH-ATLANTIC	280,827	3.03%
PHILADELPHIA	PENNSYLVANIA	MID-ATLANTIC	612,406	3.02%
BROWARD	FLORIDA	SOUTHEAST	489,471	2.98%
PALM BEACH	FLORIDA	SOUTHEAST	291,649	2.92%
JEFFERSON	KENTUCKY	CENTRAL	281,017	2.89%
DENVER	COLORADO	SOUTHWEST	226,554	2.88%
HILLSBOROUGH	FLORIDA	SOUTHEAST	286,302	2.83%
MECKLENBURG	NORTH CAROLINA	SOUTHEAST	190,927	2.81%
JEFFERSON	LOUISIANA	SOUTHEAST	196,227	2.74%
JACKSON	MISSOURI	MIDWEST	266,254	2.72%
NEW YORK	NEW YORK	NORTH-ATLANTIC	934,120	2.67%
KINGS	NEW YORK	NORTH-ATLANTIC	832,070	2.66%
MULTNOMAH	OREGON	WESTERN	241,183	2.65%
SACRAMENTO	CALIFORNIA	WESTERN	344,174	2.60%
PASSAIC	NEW JERSEY	MID-ATLANTIC	197,474	2.52%
WAYNE	MICHIGAN	CENTRAL	779,508	2.50%
COOK	ILLINOIS	MIDWEST	2,176,126	2.50%
BEXAR	TEXAS	SOUTHWEST	410,850	2.48%
MONTGOMERY	MARYLAND	MID-ATLANTIC	302,652	2.48%
CUYAHOGA	OHIO	CENTRAL	640,043	2.44%
SAN MATEO	CALIFORNIA	WESTERN	313,718	2.43%
FAIRFAX	VIRGINIA	MID-ATLANTIC	266,297	2.43%
JEFFERSON	ALABAMA	SOUTHEAST	248,893	2.41%
PIERCE	WASHINGTON	WESTERN	193,156	2.39%
CAMDEN	NEW JERSEY	MID-ATLANTIC	190,766	2.35%
QUEENS	NEW YORK	NORTH-ATLANTIC	734,182	2.32%
FAIRFIELD	CONNECTICUT	NORTH-ATLANTIC	389,452	2.29%
PIMA	ARIZONA	SOUTHWEST	223,639	2.23%
SUFFOLK	NEW YORK	NORTH-ATLANTIC	507,920	2.23%
EL PASO	TEXAS	SOUTHWEST	185,635	2.20%
WESTCHESTER	NEW YORK	NORTH-ATLANTIC	380,002	2.17%
KING	WASHINGTON	WESTERN	596,429	2.14%
HUDSON	NEW JERSEY	MID-ATLANTIC	238,859	2.13%
MARION	INDIANA	CENTRAL	343,733	2.13%
MONMOUTH	NEW JERSEY	MID-ATLANTIC	231,233	2.03%
ESSEX	MASSACHUSETTS	NORTH-ATLANTIC	286,536	2.00%
PINELLAS	FLORIDA	SOUTHEAST	347,967	2.00%

Table 3 (continued). Average Delinquency Rate for the 100 Counties With the Most IMF Returns in the United States, CY1983

COUNTY	STATE	REGION	RETURNS	AVERAGE
HAMILTON	OHIO	CENTRAL	361,188	1.93%
OAKLAND	MICHIGAN	CENTRAL	415,489	1.93%
NASSAU	NEW YORK	NORTH-ATLANTIC	602,126	1.91%
SAINT LOUIS	MISSOURI	MIDWEST	446,047	1.88%
MONTGOMERY	OHIO	CENTRAL	242,317	1.81%
FRANKLIN	OHIO	CENTRAL	377,303	1.80%
DU PAGE	ILLINOIS	MIDWEST	321,785	1.78%
HONOLULU	HAWAII	WESTERN	334,209	1.78%
HENNEPIN	MINNESOTA	MIDWEST	466,258	1.77%
UNION	NEW JERSEY	MID-ATLANTIC	223,429	1.76%
WORCESTER	MASSACHUSETTS	NORTH-ATLANTIC	255,262	1.74%
MILWAUKEE	WISCONSIN	MIDWEST	410,014	1.70%
HARTFORD	CONNECTICUT	NORTH-ATLANTIC	382,682	1.69%
MIDDLESEX	NEW JERSEY	MID-ATLANTIC	251,779	1.69%
BUCKS	PENNSYLVANIA	MID-ATLANTIC	201,128	1.69%
LUCAS	OHIO	CENTRAL	188,901	1.68%
ALLEGHENY	PENNSYLVANIA	MID-ATLANTIC	601,858	1.67%
MIDDLESEX	MASSACHUSETTS	NORTH-ATLANTIC	624,469	1.67%
PROVIDENCE	RHODE ISLAND	NORTH-ATLANTIC	236,099	1.66%
NORFOLK	MASSACHUSETTS	NORTH-ATLANTIC	284,618	1.65%
LAKE	INDIANA	CENTRAL	190,292	1.63%
NEW HAVEN	CONNECTICUT	NORTH-ATLANTIC	345,055	1.61%
DELAWARE	PENNSYLVANIA	MID-ATLANTIC	239,483	1.59%
MACOMB	MICHIGAN	CENTRAL	304,865	1.58%
RAMSEY	MINNESOTA	MIDWEST	238,180	1.57%
BERGEN	NEW JERSEY	MID-ATLANTIC	377,149	1.43%
MONROE	NEW YORK	NORTH-ATLANTIC	301,085	1.41%
ERIE	NEW YORK	NORTH-ATLANTIC	390,951	1.39%
MONTGOMERY	PENNSYLVANIA	MID-ATLANTIC	290,949	1.36%
SUMMIT	OHIO	CENTRAL	219,392	1.33%

Figure 4. presents delinquency rates by county for the United States. For greater county clarity, refer to Figures 5. - 11. for the same information on a regional basis.

Methodology

The data used for this analysis comes from the Individual Master File (IMF) Retrospective Sample. This sample data set contains detailed information on approximately 1.4 million individual taxpayers for the 1983 filing year.

For this analysis, only those IMF entities with 1983 filing activity were included. The numerator of the average delinquency rate was computed by summing for each county the weighted number of IMF entities which were issued a TDA or deferral in CY1983. If an IMF entity had both a deferral and a TDA in CY1983, only the TDA was counted toward the delinquency rate. Also, if an IMF entity had more than one deferral or TDA, only one was tabulated. Thus, one entity could only be counted once in the numerator of the fraction. The denominator of the average delinquency rate was computed by summing for each county the weighted number of IMF entities that filed a tax form in CY1983 for tax year 1982.

The data on the number of ROs per district comes from a quarterly Collection Activity Statistics report which cites the following sources: NO-5000-12; NO-5000-13; and, 4200 Staffing Report. The average of the quarterly data was used to derive the number of ROs per district for CY1983.

Accuracy of Data

Since the data used in this analysis are based on a sample of less than two percent of the population, it is necessary to examine the accuracy of the data. At the U.S. level, the individual entities estimate is low by 5.7 percent. This low estimate is partly due to the exclusion of 1981 and previous tax returns received in CY1983 in the sample, although they were included in the actual returns received figure for CY1983. The state individual entities estimates varied between 17 percent (West Virginia) and 1 percent (New York) below the actual state individual entity count. Generally, the greater the number of individual return entities for a geographic area, the closer the estimate was to the actual count.

The TDA estimate for the United States of 1.42 million was 0.17 million (10.8 percent) less than the actual number of TDAs issued for CY1983. However, this difference between the estimated and actual figure is to be expected since taxpaying entities issued more than one TDA were tabulated as having received only one TDA. The deferral estimate for the United States of .77 million was .19 million (19.9 percent) less than the actual number of deferrals for CY1983. This estimate is below the actual amount for two reasons. First, if a taxpaying entity was "issued" a deferral more than once in the calendar year, it was counted only once. Second, a taxpaying entity issued both a TDA and a deferral in CY1983 was tabulated as having received only the TDA. These adjustments were made purposely to assure that a taxpaying entity would only be counted once in the numerator of the delinquency rate. The average coefficient of variance (CV) for county TDA estimates is 29.1 percent. The average CV for state TDA estimates is 1.7 percent. Thus, we can be 95 percent confident that the TDA estimate for an individual state is within plus-or-minus 3.4 percent (2 times 1.7) of the TDA estimate.

Figure 4. Average Number of Delinquent Accounts Per 100 Individual Taxpaying Entities, CY1983

Counties, United States

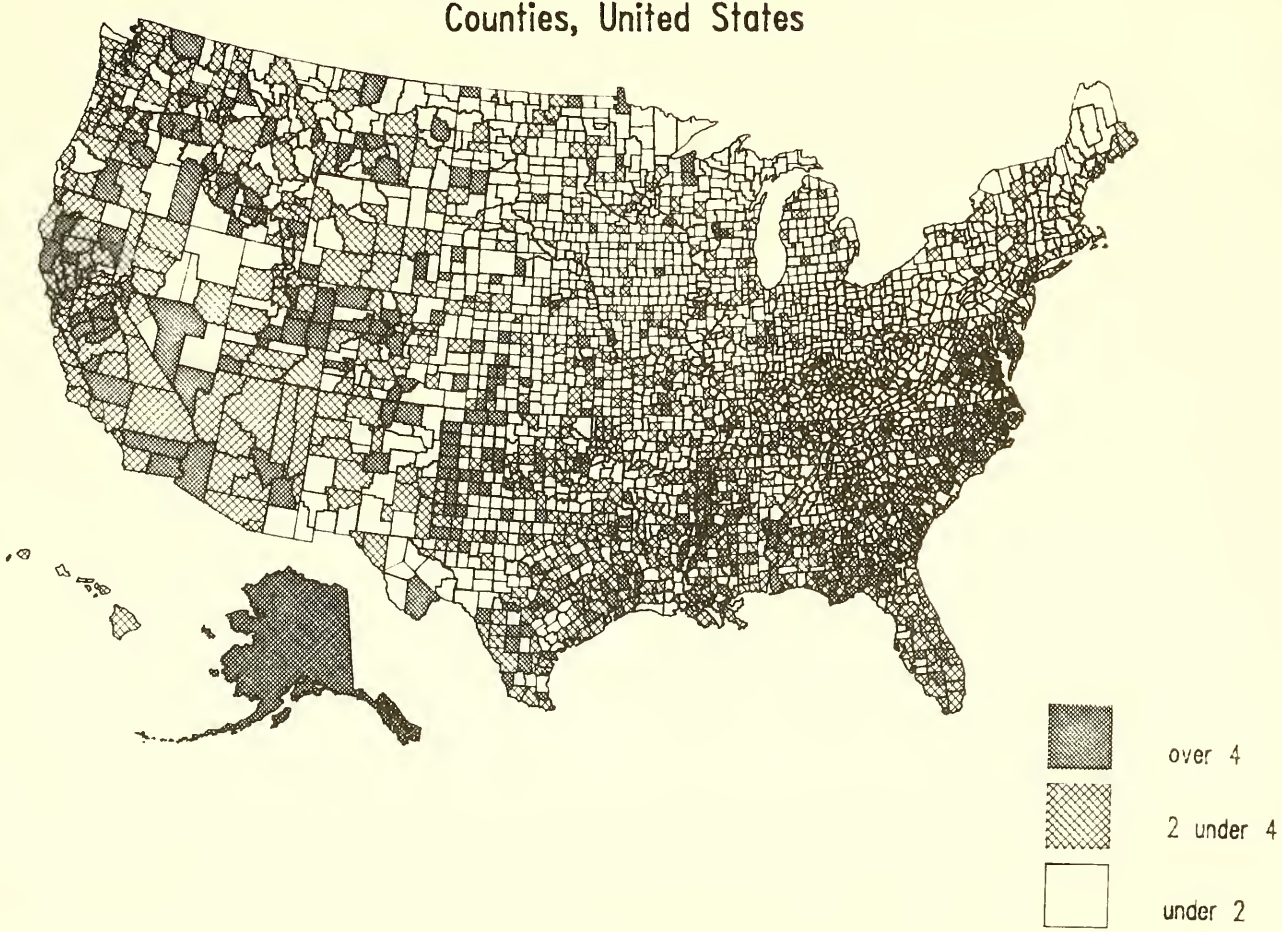
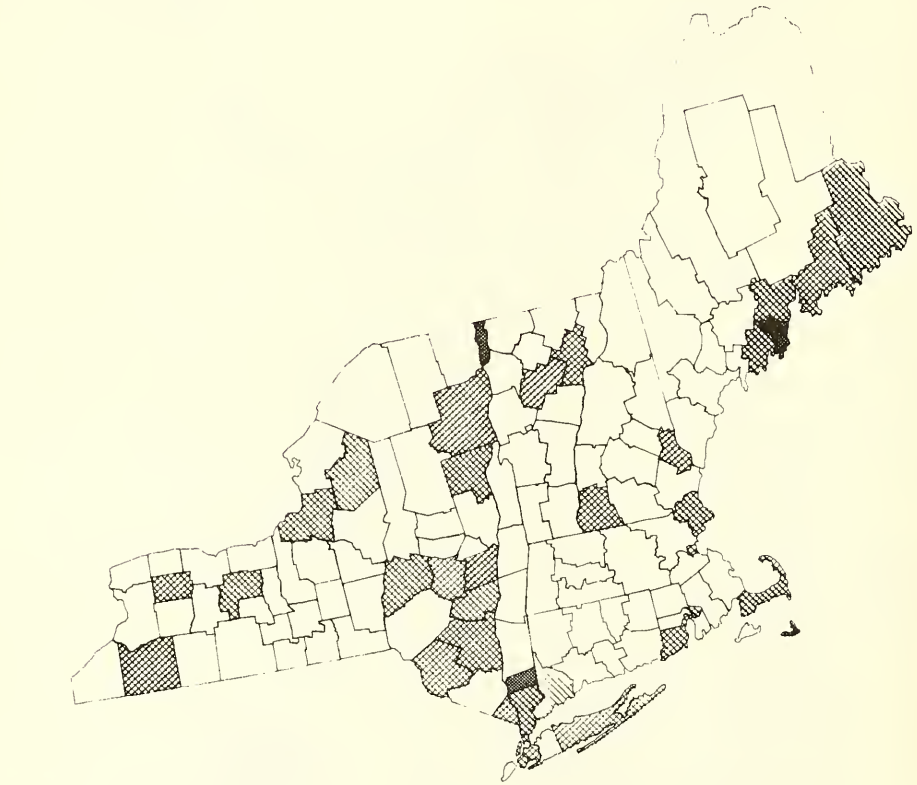


Figure 5. Average Number of Delinquent Accounts Per 100 Individual Taxpaying Entities, CY1983

Counties, North-Atlantic Region



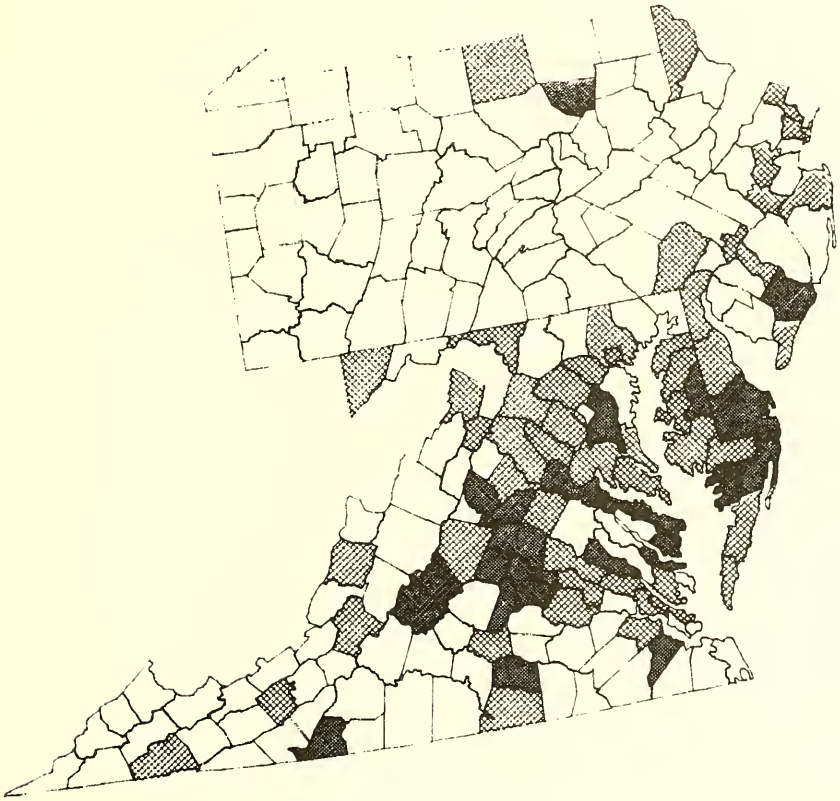
over 4

2 under 4

under 2

Figure 6. Average Number of Delinquent Accounts Per 100 Individual Taxpaying Entities, CY1983

Counties, Mid-Atlantic Region



over 4

2 under 4

under 2

Figure 7. Average Number of Delinquent Accounts Per 100 Individual Taxpaying Entities, CY1983
Counties, Southeast Region

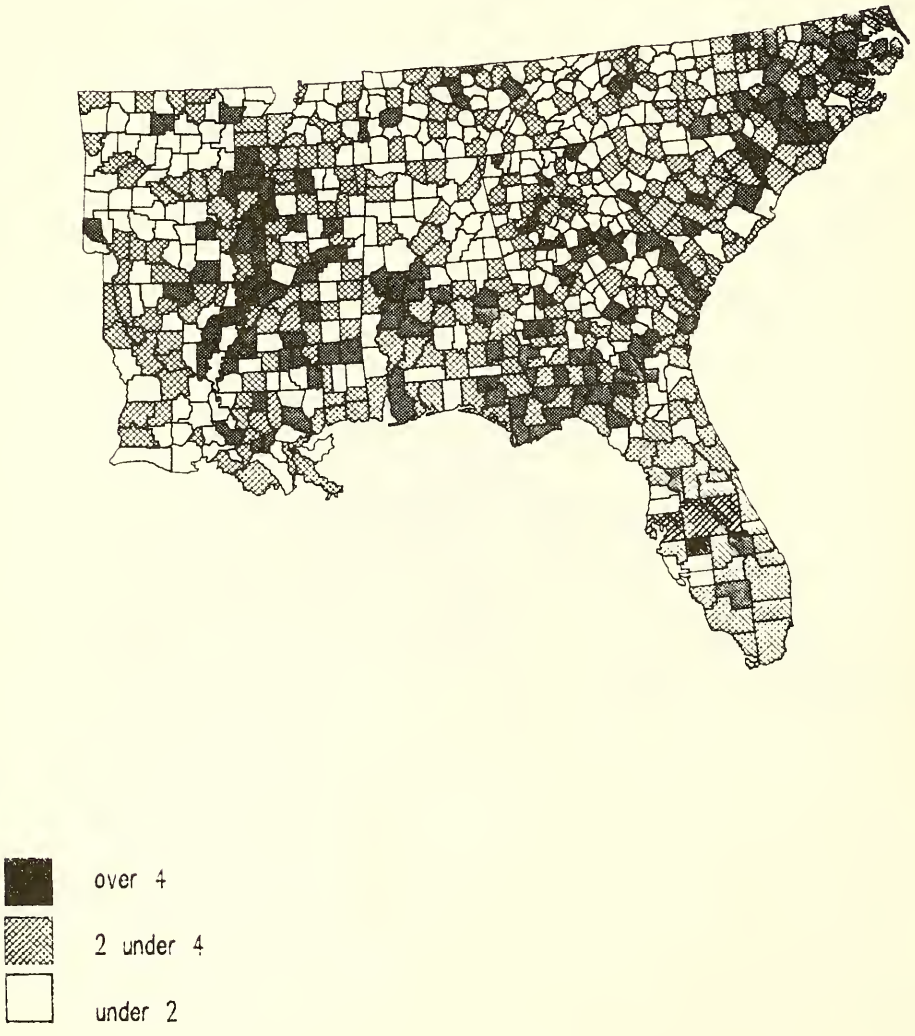


Figure 8. Average Number of Delinquent Accounts Per 100 Individual Taxpaying Entities, CY1983

Counties, Central Region

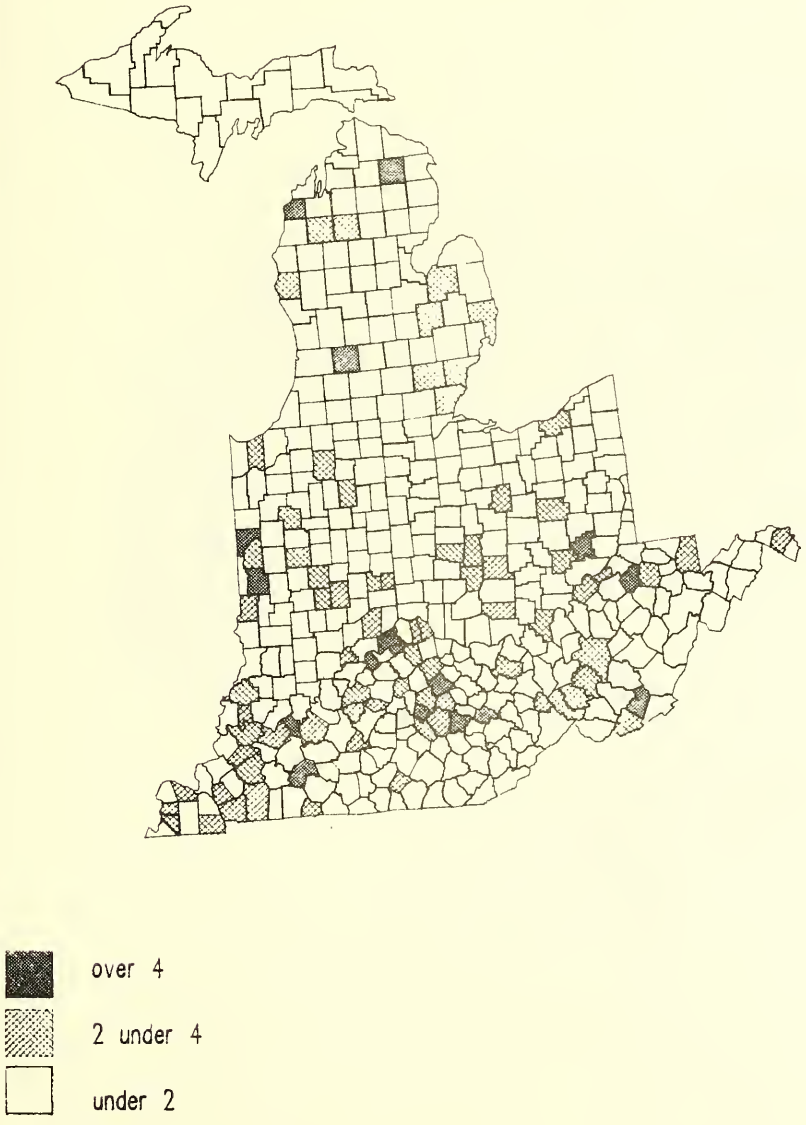
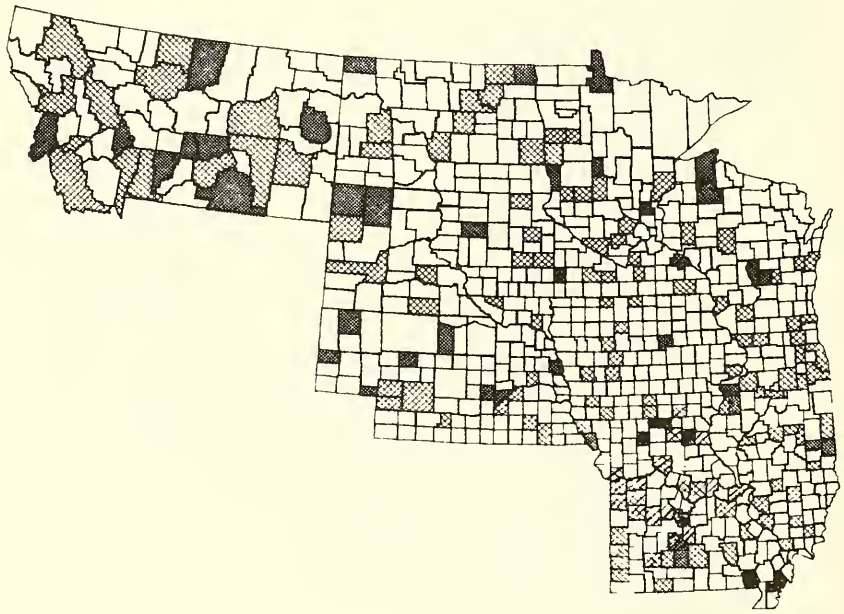


Figure 9. Average Number of Delinquent Accounts Per 100 Individual Taxpaying Entities, CY1983
Counties, Midwest Region



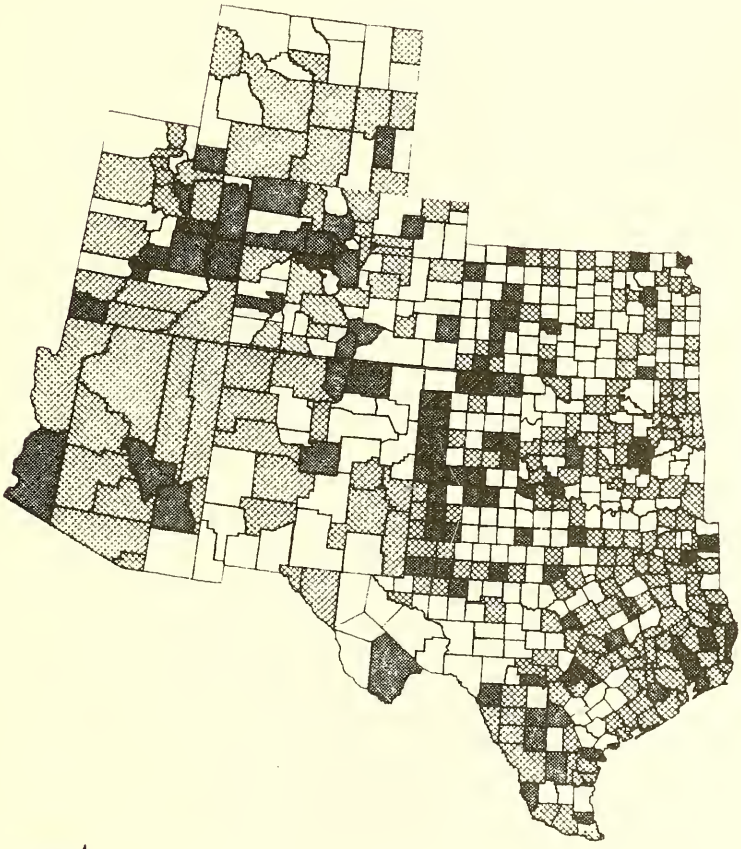
over 4

2 under 4

under 2

Figure 10. Average Number of Delinquent Accounts Per 100 Individual Taxpaying Entities, CY1983

Counties, Southwest Region



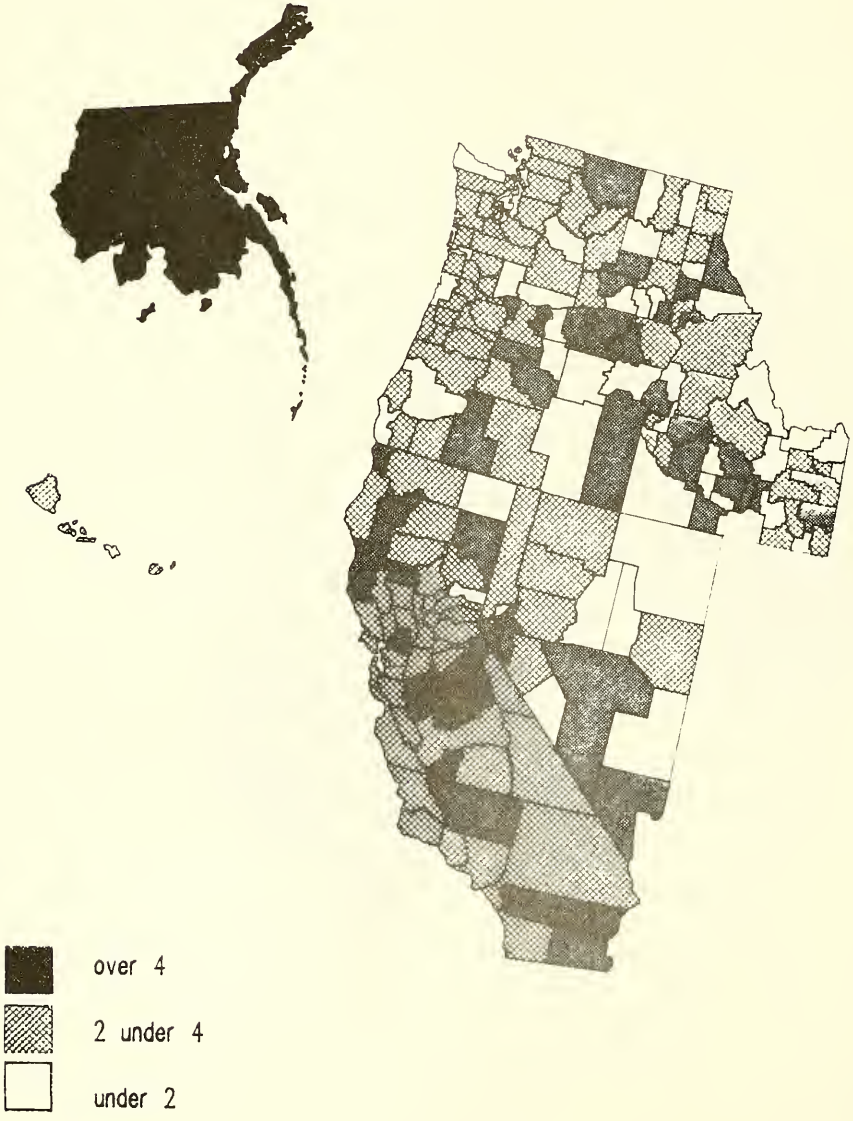
over 4

2 under 4

under 2

Figure 11. Average Number of Delinquent Accounts Per 100 Individual Taxpaying Entities, CY1983

Counties, Western Region



Notes and References

1/ The average delinquency rate definition presented in this paper is not a perfect measure of taxpayer delinquency due to a number of reasons. First, by examining only 1983 data, there is not a one-to-one match between 1983 recipients of TDAs and deferrals and 1983 filers. Thus, some TDAs and deferrals are generated from returns submitted in 1982, and some returns submitted in 1983 will be issued a TDA or deferral in 1984. Second, TDAs and deferrals may not be issued to taxpayers four to six months after filing because of delays at IRS service centers.

Impact Of TEFRA On Tip Income Reporting

by
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Tip income reporting compliance in the food and beverage service industries has historically been very low. Recent legislation strengthened the reporting requirements and dramatically improved compliance. This article quantifies the impact of the legislation and goes on to discuss related collection and research programs.

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Overview of the Tax Equity and Fiscal Responsibility Act of 1982

The compliance rate in 1981 with respect to reporting of tip income was approximately 16 percent according to estimates based on data furnished by the Bureau of Economic Analysis. The only type of income with a lower compliance rate was illegal income which had an estimated compliance rate of 5 percent.

To assist the IRS in improving compliance with respect to tip income, Congress, as part of the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA), provided a new set of tip information reporting requirements for large food and beverage establishments and, under certain circumstances, a tip allocation requirement.

Each large food and beverage establishment (as opposed to each employer) is required to report annually to the IRS: gross receipts of the establishment from food and beverage sales; the amount of charge receipts on which the tip was also charged; the aggregate amount of tips shown on those charge receipts; and reported tip income. Form 8027, Employer's Annual Information Return of Tip Income and Allocated Tips, was developed for this purpose.

If employees of an establishment voluntarily report tips totaling 8 percent or more of gross receipts, then no tip allocations are required. However, if this 8 percent reporting threshold is not met, then the employer must allocate an amount equal to the difference between 8 percent of gross receipts and the total amount reported to them by employees. Allocations may be based on hours worked or sales made by each employee or on the basis of an agreement between the employer and the employees. The 8 percent figure reflects Congress's estimate of the minimum tip rate in establishments subject to this reporting requirement.

A large food or beverage establishment is defined as any business engaged in the provision of food or beverages for consumption on the premises, other than that of a "carry-out" nature, where tipping is customary, and which normally employs more than 10 people on a typical business day.

Data Analysis

Tip Reporting Comparison: 1982 vs. 1983

Although TEFRA tip provisions are specified as calendar year requirements initially, reporting and allocation procedures took effect after the first quarter of 1983. Despite the first quarter grace period, tip income reporting by employees to their employers increased by about 90 percent for that quarter and by over 100 percent for the remaining quarters of 1983 when compared to year-ago figures. The early jump in reporting is presumed to be the result of the intense publicity about the new requirements that began as soon as TEFRA was enacted in August 1982.

As presented in Table 1., tip income reporting increased by 108 percent on an annual basis between 1982 and 1983, representing an additional $1 billion in reported income for 1983. During this same period wages reported on the same returns rose by only slightly over 2 percent. Additional data on the comparison of tip reporting in 1982 compared to 1983 are also presented in the table. These estimates were derived from tabulations of Forms 941, Employer's Quarterly Federal Tax Return, for corresponding quarters of both years, filed by employers in the food and beverage service industries. Although the increases appear to be dramatic, the estimates are conservative since no attempt was made to capture data or adjust for businesses that were in existence in only one of the years.

Table 1. Wages and Tips Reported on Forms 941 by Food and Beverage Employers for 1982 and 1983

	Tips ($000)	Wages ($000)	Returns (Average)
First Quarter:			
1982	220,280	5,955,968	
1983	419,544	5,908,734	159,762
Change:			
Dollars	199,264	(47,234)	
Percent	90.5	(0.8)	
Second Quarter:			
1982	249,832	6,233,042	
1983	546,690	6,237,222	157,061
Change:			
Dollars	296,858	4,180	
Percent	118.8	0.1	

Table 1 (continued). Wages and Tips Reported on Forms 941 by Food and Beverage Employers for 1982 and 1983

	Tips ($000)	Wages ($000)	Returns (Average)
Third Quarter:			
1982	256,113	6,157,937	
1983	559,587	6,359,021	148,540
Change:			
Dollars	303,474	201,084	
Percent	118.5	3.3	
Fourth Quarter:			
1982	259,015	5,509,303	
1983	521,536	5,865,834	149,051
Change:			
Dollars	262,521	356,531	
Percent	101.4	6.5	
Annual Totals:			
1982	985,238	23,856,250	
1983	2,047,357	24,370,811	153,604
Change:			
Dollars	1,062,119	514,561	
Percent	107.8	2.2	

Tip Reporting Comparison: 1982 vs. 1984

The impact of TEFRA on tip income reporting is more accurately guaged by comparing 1982, the last pre-TEFRA year, with 1984, the first full post-TEFRA year. Detailed data comparing wages and tips reported from food and beverage service industry employers' Forms 941 for 1982 and 1984, classified by principal industrial activity, are presented in Table 2. These data are only for employers filing in corresponding quarters of each year.

Table 2. Wages and Tips Reported on Forms 941 by Industrial Activity for 1982 and 1984

Activity	1982 Tips Reported ($000)	1984 Tips Reported ($000)	Change ($)	Change (%)
Total	905,258	2,056,321	1,151,063	127.2
Eating & Drinking Places	662,142	1,552,880	890,738	134.5
Eating Places	101,760	236,957	135,196	132.9
Drinking Places	6,401	22,157	15,755	246.1
Hotels & Other Lodging Places	116,176	207,381	91,205	78.5
Hotels	18,779	36,947	18,168	96.7

Table 2 (continued). Wages and Tips Reported on Forms 941 by Industrial Activity for 1982 and 1984

Activity	1982 Wages Reported ($000)	1984 Wages Reported ($000)	Change ($)	Change (%)
Total	22,016,531	24,842,671	2,826,140	12.8
Eating & Drinking Places	12,321,076	14,012,834	1,691,757	13.7
Eating Places	4,436,130	4,502,631	66,501	1.5
Drinking Places	869,104	1,090,401	221,298	25.5
Hotels & Other Lodging Places	3,722,866	4,440,749	717,883	19.3
Hotels	667,355	796,039	128,683	19.3

Activity	Number of Returns (Average)
Total	132,921
Eating & Drinking Places	67,168
Eating Places	42,710
Drinking Places	11,948
Hotels & Other Lodging Places	9,952
Hotels	1,257

As expected, the effect of TEFRA in 1984 was even more pronounced than it was in 1983, posting an average increase of 127 percent in 1984 over 1982. Although marked increases in tip income reporting were observed across all industries, drinking places stood out with a 246 percent change, while wages for those employees only increased by 26 percent during the same period.

Table 3. highlights the relationship between wages and tip income reporting on a quarterly basis between 1982 and 1984 for the food and beverage service industries.

Table 3. Quarterly Comparison of the Percent Increase in Wages and Tips Reported Between 1982 and 1984

	Wages (%)	Tips (%)
First Quarter	11	137
Second Quarter	12	133
Third Quarter	15	126
Fourth Quarter	13	112
Average	13	127

Analysis of tip income reported indicates that for tax year 1982 $905 million were reported to employers filing for both years. An additional $66 million were reported to employers active in 1982 but no longer in business in 1984. This brings the total tips reported in 1982 to about $971 million. In 1984, $2.1 billion of tip income were reported to employers filing for both years. An additional $119 million were reported to employers that were not in business in 1982. This brings total

tip reporting for 1984 to $2.2 billion, indicating that the total increase in tip income reporting between 1982 and 1984 is approximately $1.2 billion, or an overall average increase of 124 percent between the two years.

Consistent with the notion that the restaurant business is one that experiences a high turnover rate, about 73,000 employers out of a population of 206,000 filing Forms 941 in 1982 were no longer in business by 1984. Conversely, about 45,000 establishments began operations either in 1983 or 1984. An average of 133,000 food and beverage service businesses filed both in 1982 and 1984.

Related Programs

Form 8027 Filing Compliance

In addition to the issue of improvement in tip income reporting by employees, there are concerns in the area of compliance by establishments with the new TEFRA filing requirements. Using information from the Census Bureau, the Bureau of Labor Statistics and the Department of Commerce, in addition to Master File data, it was estimated that about 100,000 to 125,000 establishments (not employers) were required to file Forms 8027. However, only about 40,000 were filed for tax year 1983--a filing rate of 40 percent or less. The Service developed a two-stage approach to improving filing compliance. The first was a taxpayer awareness program consisting of news releases and fact sheets issued by Public Affairs as well as contacts with various restaurant associations.

The second stage of the filing compliance improvement project was a delinquency check program. Specially developed delinquency notices were sent to all employers filing Forms 941 with an entry for taxable FICA tips for whom there was no evidence of a Form 8027 having been filed for tax year 1983. Approximately 80,000 notices were mailed. As a companion effort, Form 8027 was included in the program charged with mailing blank forms to taxpayers prior to the filing season.

These programs appear to have been somewhat successful in that more than 50,000 Forms 8027 have been filed for tax year 1984, along with an additional 10,000 correspondence items from taxpayers indicating they were not liable to file. The IRS is continuing to pursue the filing compliance problem with a tax year 1984 delinquency check program designed to provide more accurate measures of the population required to file and the characteristics of the nonfiling segment of that population.

TEFRA Tip Income Study

In addition to new filing requirements for employers, TEFRA mandated that a study be performed to analyze and evaluate the various provisions of the legislation as well as to answer questions related to the underlying concerns of the legislators.

The study will be conducted by selecting 800 establishments filing Forms 8027 for 1984, 200 establishments not required to file and 400 establishments for whom a Form 8027 was secured through Collection efforts. Tip rates will be developed for each of these 1,400 establishments, and examinations will be conducted on all of their directly and indirectly tipped employees.

As mentioned previously, the IRS Collection function is conducting a tax year 1984 delinquency check program to determine with certainty the size and nature of the nonfiling population of establishments. From a pool of 27,000 perfected leads, 4,800 were randomly selected for special follow up. The Service expects to secure about 1,200 delinquent returns from this program, 400 of which will be randomly selected for examination of their employees as part of the Tip Income Study.

The primary focus of the TEFRA Tip Income Study is to measure tip income reporting compliance, not only to employers, but also to the IRS on individuals' tax returns. In addition to tip reporting compliance, the study is designed to provide insight into areas such as: minimum wage and its components (i.e. tip credit); full-time and part-time employment; tip sharing, pooling and splitting arrangements; the validity of the 10 employee rule for meeting the filing requirement; and the validity of the 8 percent allocation floor.

Collection activity related to the Tip Income Study began in October 1985 and extended through March 1986. Examinations began in the last quarter of 1984 and will run to mid-1987. The final study report is due to the tax writing committees of Congress by the end of 1987.

Summary

Tip income reporting compliance has historically been very low. TEFRA increased the reporting requirements of employers and thereby helped the Service accomplish its mission in two ways. First, by virtue of strengthened employer reporting requirements, tip income reporting by employees to their employers has more than doubled, showing a 108 percent increase in the first year and a 124 percent increase in the second. This resulted in over $2 billion of additional reported tip income during the two-year period. Second, the Service now has a tool for making efficient selections of establishments (and their employees) for examination as well as a vehicle for conducting contact programs on unreported allocated tip income. In conclusion, the legislation on tip income reporting is working. The TEFRA Tip Income Study, scheduled for completion in late 1987, should provide much more insight into the area of tip income and is expected to provide the basis for maintaining, and possibly modifying, the tip provisions of TEFRA. Bear in mind, however, that the substantial improvement in tip reporting, a doubling from 16 percent to at least 32 percent, means two-thirds of this type of income is still not being reported.

Trends in Industries With Low Compliance in Reporting Business Receipts*

by
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While the overall reporting compliance of non-farm sole proprietorships has been increasing since the mid-1970s, nine industries were identified that consistently report lower portions of their income than the national average (according to three TCMP surveys covering individual income tax returns filed with a Schedule C attached). These industries include several in the services, construction and retail sectors of the economy. Furthermore, since these industries' share of total business receipts is increasing, this important segment of the "underground economy" is growing faster than the rest of sole proprietorships in the U.S. economy.

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Introduction

The results of this study shed new light on the controversy over whether the "underground economy" is growing relative to the rest of the economy. Though the "underground economy" is difficult to define, one portion of it consists of sole proprietors who either "skim" some of their receipts, or who perform services "off the books" alongside their normal business. This study focused on the reporting of gross receipts by sole proprietors who file Forms 1040 with a Schedule C attached. It did not consider the other types of noncompliance (such as overstating deductions, non-filing or non-payment) because the motivation for the project was to study cash-based businesses that do not report all of their income. Moreover, even though corporations and partnerships in some industries may also be noncompliant, the study was limited to sole proprietorships because suitable compliance data are not available for corporations and partnerships.

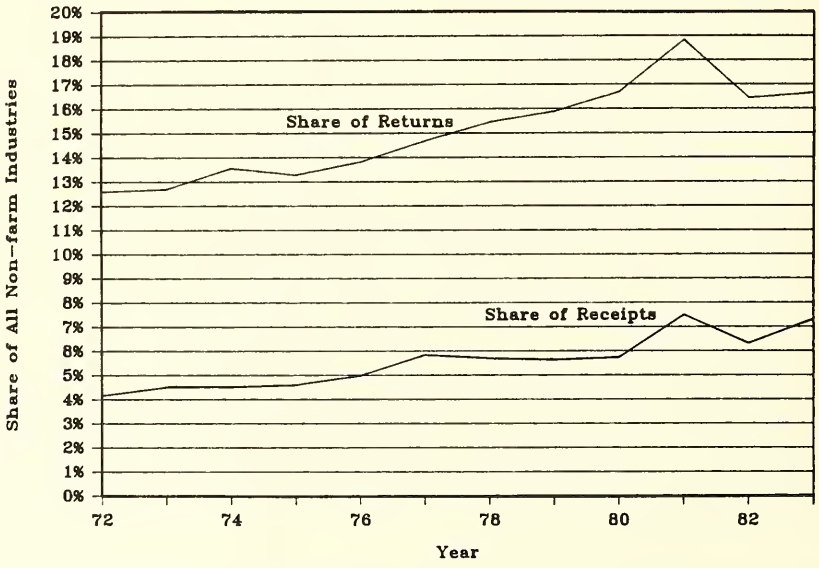
Industries in which the Taxpayer Compliance Measurement Program (TCMP) surveys of individual income tax returns found persistently poor reporting of gross receipts among sole proprietors were compared as a group with all other non-farm sole proprietors. The results of these comparisons are discussed in the next section. The method by which the low-compliance industries were identified is discussed in the following section.

* The topic for this article was suggested by the Regional Commissioner, Mid-Atlantic Region.

Growth Trends for Low-compliance Industries

As shown in Figure 1., the low-compliance group of industries (direct selling organizations; miscellaneous services; used car dealers; miscellaneous personal services; producers, orchestras and entertainers; passenger transportation arrangement; taxicabs; masonry and stonework construction; and roofing and sheet metal construction) has been increasing its share of all businesses and its share of total gross receipts since 1972, according to Statistics of Income (SOI) data. Furthermore, the industries with low compliance comprise a larger share than SOI data indicate since the data are based solely on amounts reported on tax returns, and these industries consistently understate their income more than the average. Both measures in Figure 1. suggest that this group of industries is becoming increasingly important in the non-farm proprietorship sector of the economy. Since their share of receipts is lower than their share of returns, the figure also suggests that these industries consist of relatively small businesses. This fact would still have been observed even if these industries had reported all of the gross receipts detected by the TCMP surveys.

Figure 1. Share of Schedule C Returns and Share of Reported Schedule C Receipts, Low-compliance Industries, 1972-1983



Source: Statistics of Income, Sole Proprietorship Returns

Further examination of the growth patterns reveals that the growth in both receipts and businesses is due to the rapid growth in five of the nine low-compliance industries: direct selling organizations; miscellaneous services; used car dealers; miscellaneous personal services; and producers, orchestras and entertainers. These five industries not only exhibited the fastest growth, but also are the largest of the low-compliance group. Moreover, they were represented by reasonably large numbers of cases in the TCMP surveys. The other four industries grew slowly until recent years, and they appear to have been hurt more severely by the recession of 1982.

Method of Analysis

The basic approach taken in this analysis was to use TCMP data to identify the least compliant industries and to use SOI data to measure trends for those industries. The gross receipts reporting compliance of 206 industries was calculated using the 1976, 1979 and 1982 TCMP individual survey results. For each industry, an aggregate voluntary reporting percentage (VRP) was computed for each year. The VRP is the amount of Schedule C gross receipts reported by the industry expressed as a percentage of the industry's total gross receipts. The industries were then ranked according to their VRP's in each year. Many industries exhibited widely fluctuating VRP's. This may have been caused both by actual variation and measurement error. In any case, we did not classify an industry as a low-compliance industry unless it had a low VRP in all three years. "Low" was defined as having a VRP in the lowest quartile of gross receipts according to the TCMP data. That is, as a group, the "Low" industries had the lowest VRP's and accounted for 25% of reported gross receipts. This method identified the 9 industries mentioned earlier, which are listed in Table 1. with their VRP's for each year.

Note that the average VRP of the low-compliance group rose substantially between 1979 and 1982, after a decline from 1976 to 1979. This improvement is concentrated among direct selling organizations (those involved in the retail sale of merchandise by telephone or by house-to-house canvassing), miscellaneous services (e.g., authors, lecturers, radio commentators, song writers, weather forecasters, writers and artists) and used car dealers. The VRP's for these industries are based on numerous cases, so the variation cannot be due entirely to sampling error. Because these three are large industries, they account for most of the increase in the average VRP of the low-compliance group from 1979 to 1982. This took place during a period when the more-compliant group of industries had a constant average VRP.

Other factors may influence the identification of low-compliance industries. For example, the VRP's compare reported receipts to the amount that the TCMP examiners determine should have been reported. These ratios are therefore upper bounds; since the examiners cannot uncover all unreported income, the true VRP's are, in all likelihood, lower than the data suggest. But, while unreported income may be easier for an examiner to uncover in some industries than in others, we have no evidence that suggests this is why the 9 low-compliance industries consistently had low VRP's.

Table 1. Voluntary Reporting Percentages*
For Schedule C Gross Receipts By TCMP Year:
Low Compliance Industries Compared With All Other Industries

Industry	TCMP Year		
	1976	1979	1982
ALL INDUSTRIES	96.1	96.3	96.7
ALL LOW COMPLIANCE INDUSTRIES**	90.9	88.9	94.2
With Rapid Growth			
Direct selling organizations	84.3	79.2	94.8
Miscellaneous services	89.9	88.3	95.1
Used car dealers	93.8	86.6	93.7
Miscellaneous personal services	93.6	93.9	92.1
Producers, orchestras, entertainers	93.9	94.7	94.0
With Moderate Growth			
Passenger transportation arrangement	93.0	66.7	80.7
Taxicabs	89.9	87.0	82.6
Masonry, stonework construction	86.4	95.2	95.6
Roofing, sheet metal construction	93.9	93.0	93.4
ALL OTHER INDUSTRIES	96.7	97.0	97.0

* Calculated as the ratio of the population estimates of gross receipts reported to gross receipts as determined by the TCMP examinations.
** See text for explanation of how these industries were identified.

Variation in Compliance

The low-compliance industries do not have the very lowest VRP's in a given year because many industries' compliance varied widely from year to year. A total of 75 industries had "low" VRP's in one or two of the three survey years. Some of this variation is probably due to measurement or sampling error due to a small number of returns representing certain industries in the TCMP survey. On the other hand, some of the observed variation may be due to actual changes in compliance. The VRP's for 12 of these 75 industries changed from one TCMP survey to the next by more than 5 percentage points, yet were based on an ample number of returns. To the extent that the variation in measured compliance is due to limitations of the TCMP sample, the classification of industries that exhibited consistently low VRP's must be viewed with caution.

The low-compliance industries also exhibited varying VRP's. The largest change took place between 1976 and 1979 in the passenger transportation arrangement industry (e.g., travel agents and tour groups), but its VRP's may not have been accurately measured due to a low number of TCMP cases in each year. More interesting is the increase in VRP's observed among direct selling organizations, miscellaneous services and used car dealers, as noted earlier.

Conclusion

This study of sole proprietorships (Forms 1040 with a Schedule C) has revealed the following trends:

- Industries that have persistently poor records of reporting gross receipts are growing more rapidly than non-farm unincorporated businesses as a whole.

- However, the reporting compliance of these low-compliance industries has recently improved.

- The least-compliant industries that are growing most rapidly include several in the retailing and services sectors.

- A significant number of industries exhibit large variations in their reporting of gross receipts from year to year.

These results suggest that the IRS should monitor the reporting compliance of some sole proprietorship industries more closely than others. The IRS is presently conducting a "Schedule C Initiative" in which the attention of examiners is directed at unreported and underreported income of sole proprietors in tax years 1983 and 1984. This initiative should confirm that the industries which should be monitored most closely include the idustries identified herein. The Tax Equity and Fiscal Responsibility Act of 1982 may also help to reduce some of the noncompliance identified in this study. It requires more extensive reporting of economic activity in some of the least compliant industries, such as personal services and direct selling.

A Look at Form 1099-B Filers

by
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Recent legislation mandated information reporting on Form 1099-B by brokers and barter exchanges in order to reduce the amount of un-unreported income in these areas. A total of 10.3 million documents were transmitted to the Internal Revenue Service in 1984 by approximately 10,000 payers. Data on brokers and dealers from the Security and Exchange Commission show that a comparable number is registered with that agency. The geographic distribution of the SEC data, however, appears to be significantly different from the distribution of 1099-B data reported by IRS.

Projections of the filing population indicate that the number of 1099-B filings is expected to reach 138.5 million by 1992. This large increase from the 1984 experience is primarily due to transactional reporting that went into effect in 1985.

* * * * * * *

Background

Voluntary reporting of capital gains income has been relatively poor in the past. An IRS estimate made in 1981 indicates that the reporting rate in this area has been under 60 percent. Congress found this low rate of voluntary reporting unacceptable since capital gains income generally accrues to people in the middle- and higher-income brackets.[1/]

To improve voluntary reporting in this area, Congress included in the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) a provision requiring gross proceeds from transactions conducted by brokers and dealers to be reported to the Internal Revenue Service. This provision also imposed the same information reporting requirements on barter exchanges. For 1984, the first year of implementation, reporting was made on an aggregate basis. For 1985 and subsequent years transactional reporting became effective.

New Reporting Requirements

A new information return was introduced in 1983 to carry out these provisions of TEFRA--Form 1099-B, Statement for Recipients of Proceeds from Broker and Barter Exchange Transactions. A broker is required to file a Form 1099-B for each person for whom the broker has sold (including short sales) stocks, bonds, commodities, regulated

futures contracts, forward contracts, debt instruments, etc. The term "broker" means a person that, in the ordinary course of a trade or business, stands ready to effect sales to be made for others.

Similarly, a barter exchange needs to file a Form 1099-B to document the transfer of property or services. The term "barter exchange" means any person or organization with members or clients that contract either with each other or with other such persons or organizations. It does not include informal exchanges of similar services on a noncommercial basis.

For certain types of transactions, no return is required. These include such categories as sales by exempt recipients, sales initiated by dealers in securities and financial institutions, sales by certain custodians and trustees, sales of fractional shares of stocks, small exchanges through the barter exchange arrangement, etc.

A Look at the Number of Brokers and Barter Exchanges

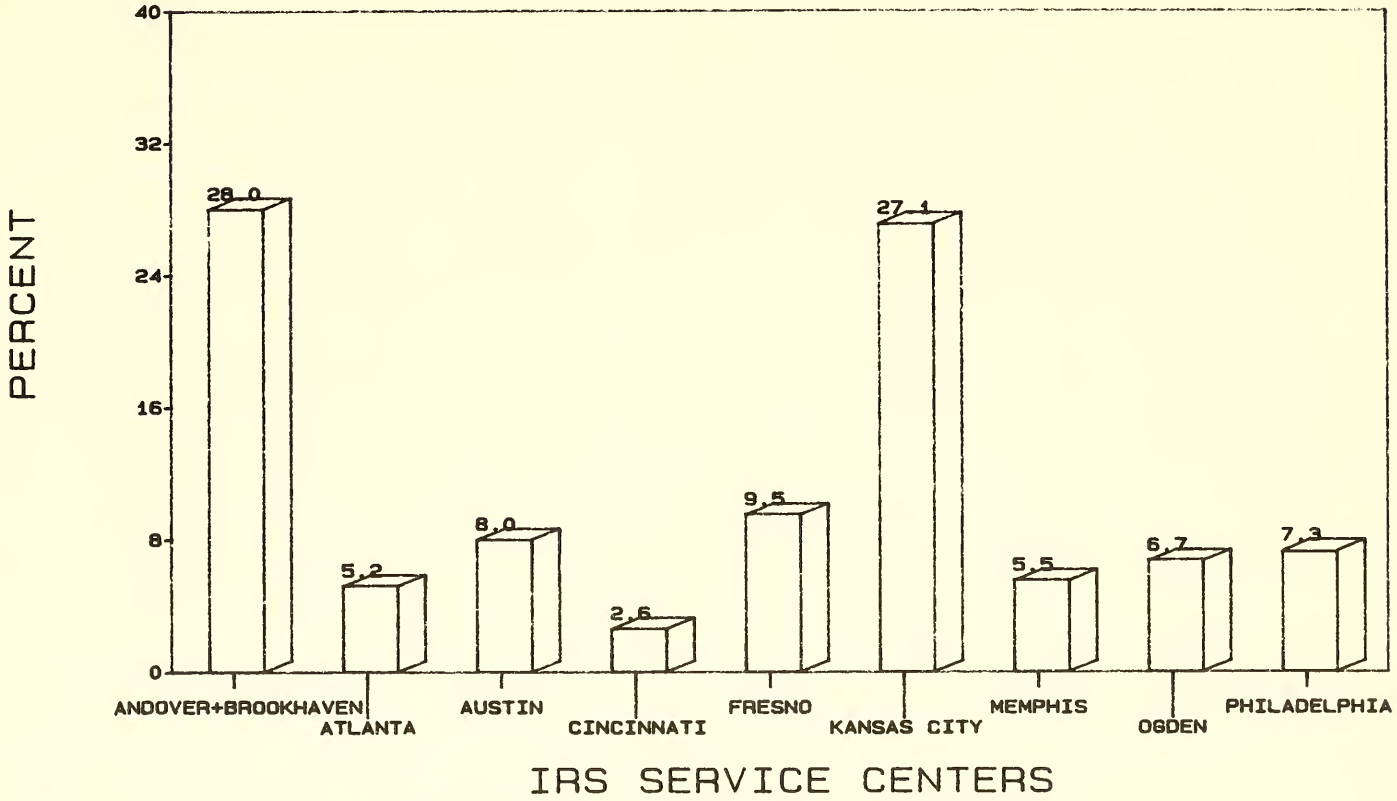
How many brokers and barter exchanges are there on a nationwide basis? And how do these numbers relate to the actual number of Form 1099-B's filed?

Data obtained from the Securities and Exchange Commission indicate that 10,644 brokers and dealers were registered with that agency in 1984. Figure 1. presents the distribution of the number of these brokers and dealers by IRS service center boundaries in 1984. Data for the Andover and Brookhaven Service Centers were combined into one area because of the lack of information to segregate the New York State data into the desired district boundaries.

As expected, the largest concentration is found in the northeastern and midwestern corridors where major financial centers are located. The Andover-Brookhaven Service Center area shows the largest concentration of brokers and dealers, with 28.0 percent of the total. This is followed by Kansas City Service Center with 27.1 percent, Fresno Service Center with 9.5 percent and Austin Service Center with 8.0 percent. A high concentration in the Andover-Brookhaven Service Center area reflects the large number of brokerage houses located in New York City. A similar concentration in the Kansas City Service Center area reflects the large number of commodity exchanges located in the Chicago vicinity.

The International Reciprocal Trade Association (IRTA) estimated that there are approximately 500 barter exchanges in the United State. A comparable figure was also cited by the U.S. Chamber of Commerce.[2/] These barter exchanges involve mostly small to medium-sized businesses, although large companies not under any barter exchanges are also increasing their bartering activities--especially in the international arena. Geographical distribution of these barter exchanges are not available. Most of them, however, are located in the urban areas of the United States, with a large concentration to be found in the West.

Figure 1. Percent Distribution of the Number of Registered Brokers and Dealers, United States 1984



SOURCE: SECURITY AND EXCHANGE COMMISSION

A Look at IRS Data

Form 1099-B's were required to be filed for the first time in 1984. Since separate data by brokers and barter exchanges are not available from IRS, it is assumed that the total number of barter exchanges filing 1099-B's will also approximate the 500 or so reported by IRTA. Because of the low volume, the impact of barter exchanges on IRS processing is expected to be minimal. The impact on revenue, however, could be significant. Before mandatory filing of 1099-B's, a special survey conducted by IRS estimated that $76.5 million of income was not reported by members of these barter exchanges in 1981.3/ With mandatory filing, this revenue gap should be greatly reduced.

In 1984, 10.3 million 1099-B's were filed. Figure 2. illustrates the distribution of these documents by IRS service center areas--again, combining the Andover and Brookhaven Service Centers for comparability with the SEC data. Contrary to the pattern for brokers and dealers, the combined Andover-Brookhaven Service Center areas accounted for over three-quarters of all the documents filed. Although Kansas City Service Center ranked second, it accounted for only 7.1 percent of the total. Austin Service Center had the lowest share of only 0.4 percent of the total.

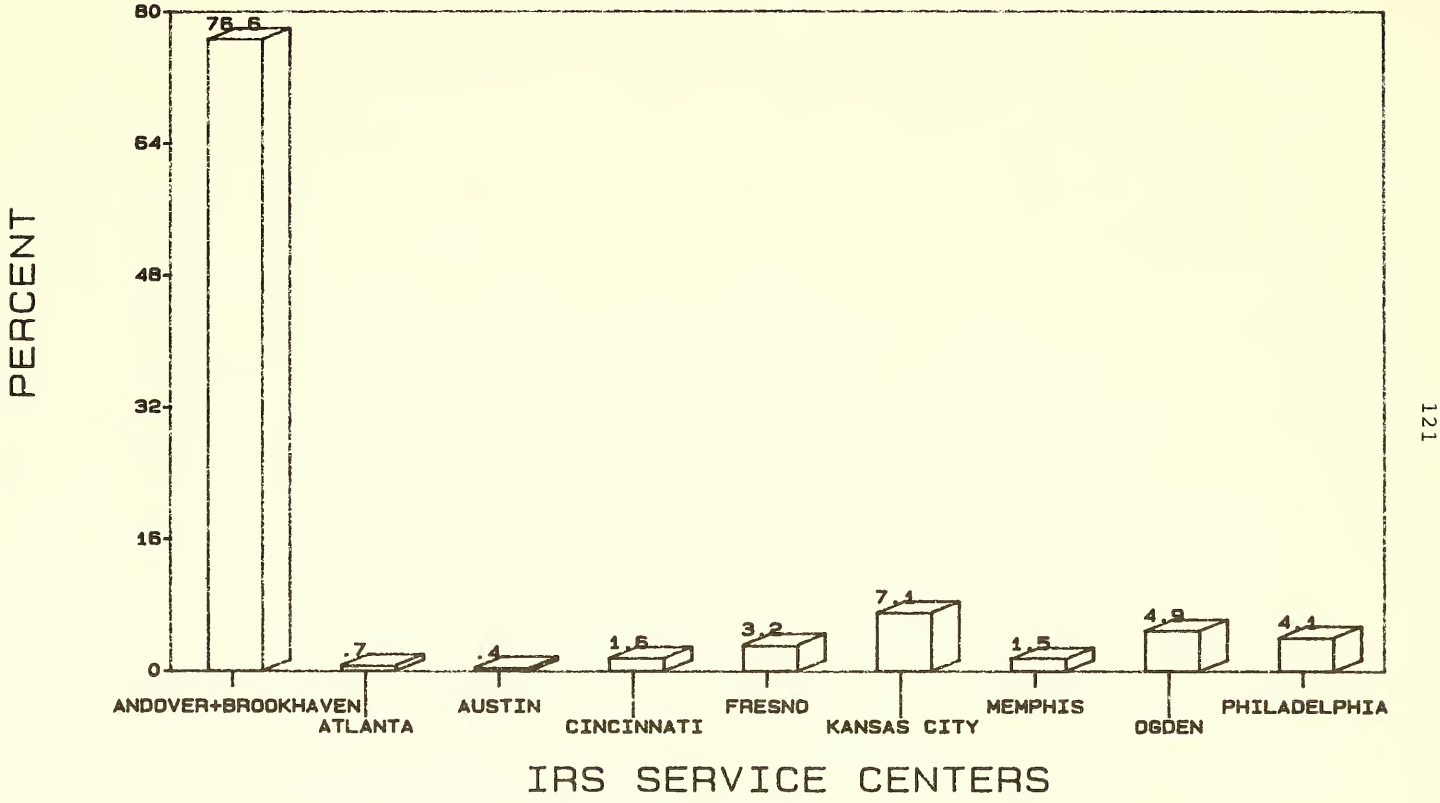
In order to relate the SEC data to the IRS data, the number of payers who transmitted 1099-B's to recipients and filed them with IRS was examined. In 1984 there were 9,698 payers recorded on the IRS data files, which approximates the 10,644 brokers and dealers reported by SEC. The percent distribution shown in Figure 3. approaches the distribution shown in Figure 1., which is based on SEC data.

One noted anomaly is the difference shown for the Cincinnati Service Center--IRS reported 11.2 percent whereas SEC reported only 2.6 percent. The cause of the difference is not known. However, if the data for the Cincinnati Service Center and the Kansas City Service Center were combined, the proportional shares become very close: 29.7 percent for SEC and 27.9 percent for IRS.

Why, then, were over 75 percent of the Form 1099-B's filed in the Andover-Brookhaven Service Center area when the percent distribution of the payers generally conforms with the SEC data? One main reason is that most of the major brokerage houses are located in the New York City area. Even though many of their brokers are scattered all over the United States, their main office handles the 1099-B's for their brokers and the documents are filed with the service center in which the headquarters are located.

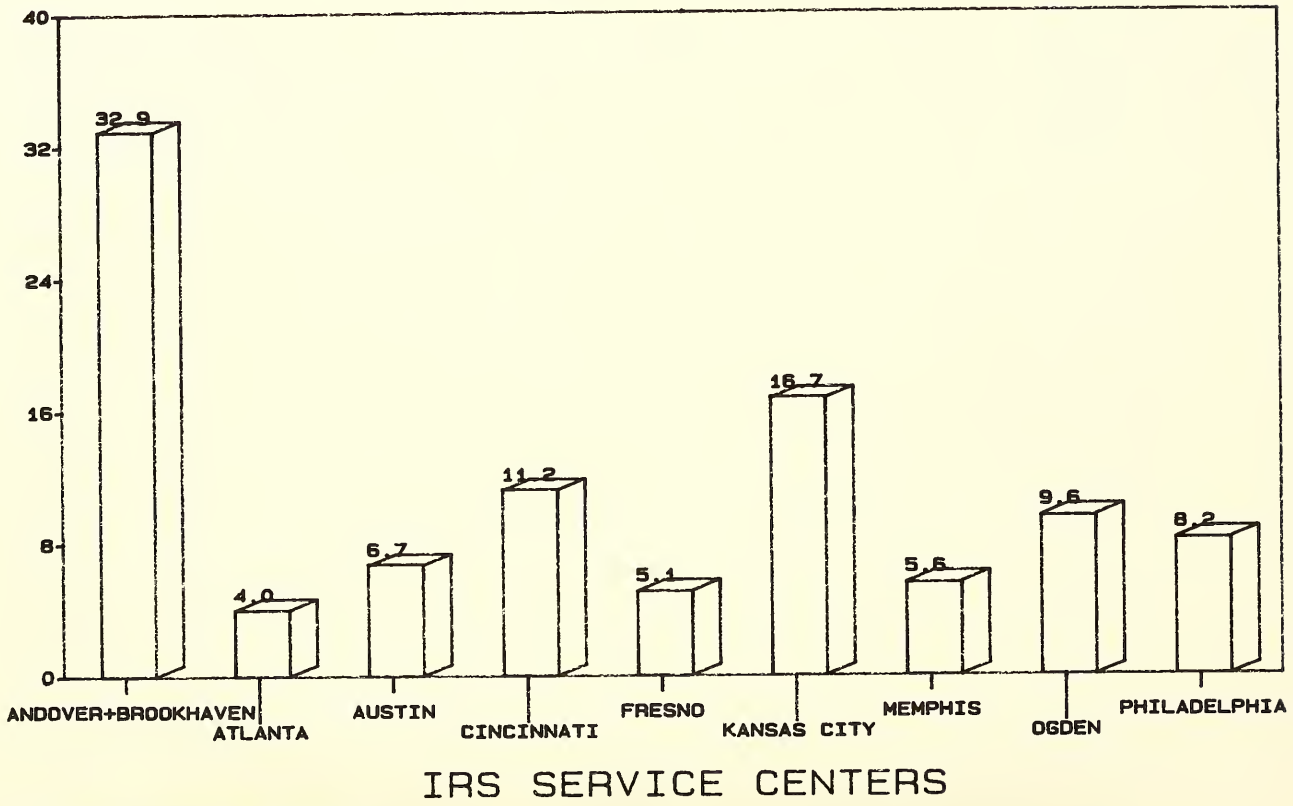
Some brokers may engage a middleman to process their paperwork, and these documents may be filed in the location of the middleman. No separate data on forms filed by middlemen are available. Most of the major brokerage houses, however, maintain their own staff to handle such details.

Figure 2. Percent Distribution of the Number of Form 1099-B's Filed, United States 1984



INTERNAL REVENUE SERVICE

Figure 3. Percent Distribution of the Number of Payers Transmitting Form 1099-B's, United States 1984



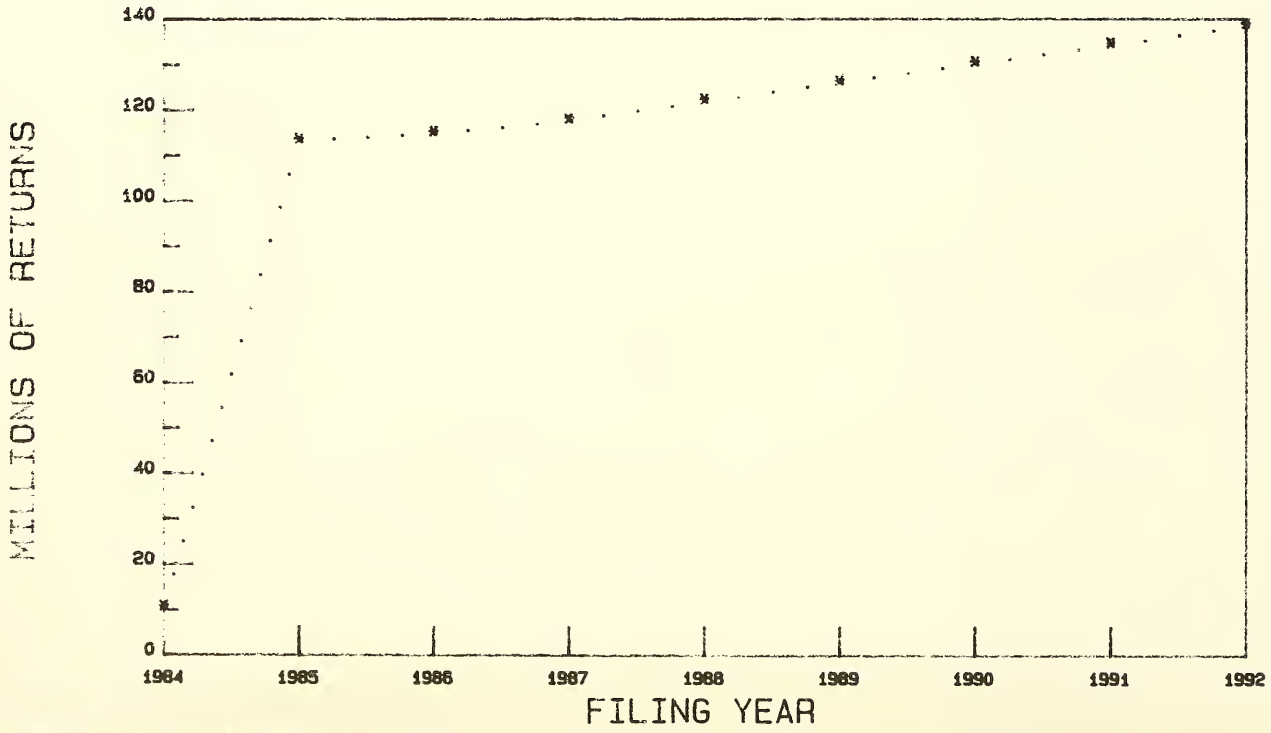
SOURCE: INTERNAL REVENUE SERVICE

A Look at the Future

The total number of 1099-B's filed for the United States is projected to increase from 10.3 million in 1984 to 138.5 million in 1992 (see Figure 4.). Most of this large increase is attributed to transactional reporting which became effective in 1985.[4/] It is expected that over 90 percent of the total will be filed via magnetic tape media, and the remainder on paper documents.

The outlook of IRS service center processing of 1099-B documents has been greatly affected by a recent decision to transfer all magnetic tape processing to the IRS National Computer Center. The processing of paper documents will, however, remain in the service centers. With more and more companies turning to the magnetic tape media to transmit 1099-B information, it is possible that all processing procedures will eventually take place in the National Computer Center, thereby freeing service center resources to handle other types of workload operations.

Figure 4. Projection of the Number of Form 1099-B Documents to be Filed, United States Actual: 1984, Projected: 1985-1992



SOURCE: INTERNAL REVENUE SERVICE

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Farms and Taxes: A Study in Trends*

by
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Trends in the farm sector indicate that farms are becoming larger, that more farming is becoming corporate, and that the Internal Revenue Code may be providing some stimulus for these changes. This study presents Statistics of Income and TCMP data illustrating these trends and offers economic and tax related explanations supporting these findings. The changes in the agricultural sector discussed here have given rise to declines in the number of farm sole proprietorships as well as to increases in farms with negative net profits. One implication of the analysis is that a major part of the increased incidence of negative net incomes on small farm returns reflects the genuine losses associated with persistent economic dislocations.

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Trends in Returns

As illustrated in Figure 1., filings of farm business returns have been declining from 3.2 million in 1963 to 2.6 million in 1982. For purposes of this analysis a farm return could be a sole proprietorship return (a Form 1040 with a schedule F attached), a farm partnership return (Form 1065 with a farm principal industrial activity or PIA code), or a corporation return (Form 1120 with a farm PIA code). By far the largest number of farm returns for any year are sole proprietorships, although they have been declining throughout the period. Conversely, corporate farm returns have been steadily increasing from 16,000 in 1963 to 65,000 in 1982. Partnership returns remained about the same, fluctuating between 12,000 and 11,000 over the period from 1963 to 1982.

While corporate returns amount to only two percent of the total number of farm returns filed, as presented in Figure 2., they accounted for 27 percent of the industry's reported business receipts of $160 billion in 1982. Sole proprietor farms' share of total farm business receipts fell from 75 percent in 1963 to 61 percent in 1982. However, they still accounted for almost 93 percent of the total number of returns. Farm partnerships have been steady throughout the period from 1963 to 1982, accounting for about 12 percent of the total farm returns filed and 12 percent of the business receipts.

*The topic for this article was suggested by the District Director, St. Louis.

Figure 1. 1963–82 FARM RETURNS*

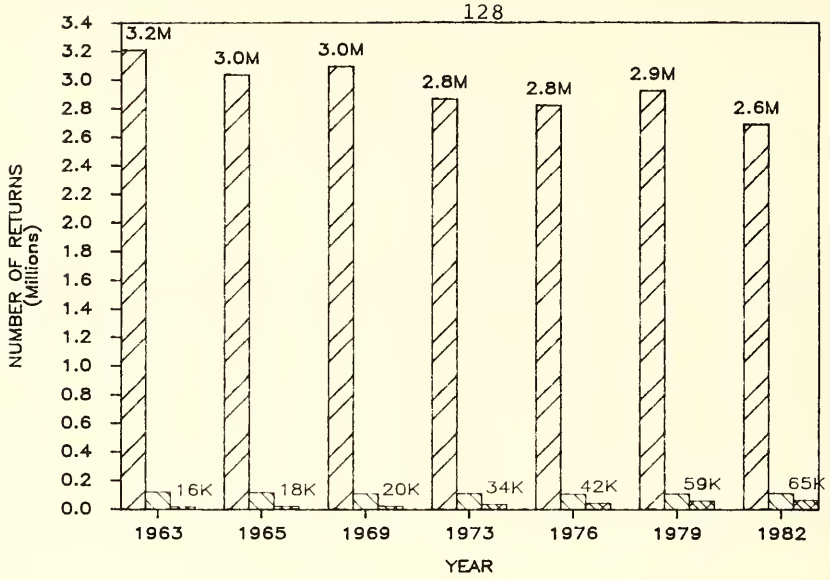
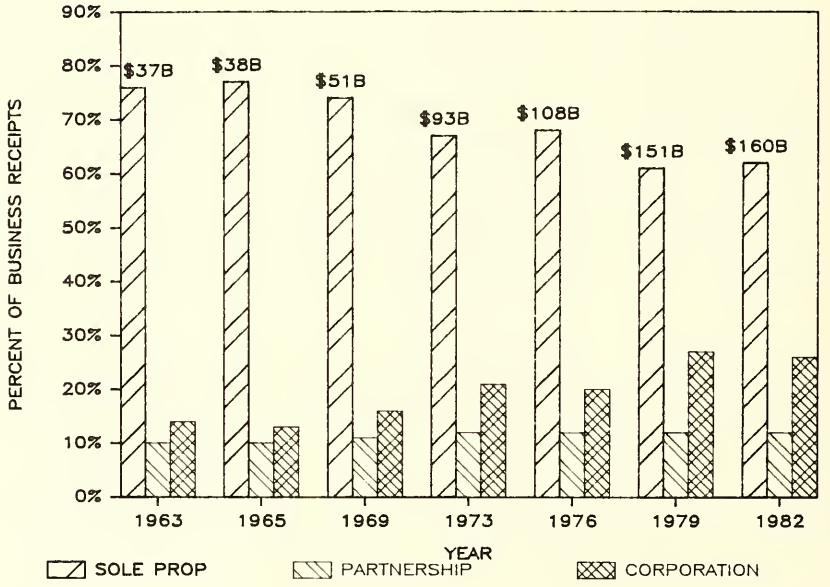


FIGURE 2. FARM BUSINESS RECEIPTS**



Note: * M stands for millions and K stands for thousands
** B stands for billions

Economic Trends

The economic events of the 1970s have left their impact on the American farmer. Crop failures around the globe in the early part of the decade spurred an expansion of production and of acreage used by U.S. farmers. The weakening of the U.S. dollar abroad helped fuel this expansion. From 1970 to 1980 the multilateral trade weighted value of the U.S. dollar (a composite figure representing the mean of exchange rates of the leading trade partners of the U.S. weighted by the amount of trade done with each partner) fell by more than 27 percent. The result was an increase in farm exports throughout the entire decade from $7.3 billion in 1970 (12 percent of gross farm income in that year) to $41.2 billion in 1980 (27 percent of gross farm income in that year). [1]

Many farmers, realizing the widening spread between low cost loans from the farm banks--such as the FmHA and the CCC--and the rapidly increasing value of farm land, embarked on a capital-gains-based-agriculture.[2] As Lawrence Shepard, an agricultural economist at the University of California at Davis states, "By borrowing at nominal loan rates that averaged just 7 percent in the 1970s and real rates that averaged just 1 percent, farmers were able to participate in a land market that appreciated at an annual compound rate of more than 25 percent during the decade."[3] The value of an acre of farm land increased by 345 percent over the decade. While the gains in agricultural productivity during the 1970s were significant, being as much as 70 percent in the case of vegetable and other oil crops, they cannot account for the enormous appreciation of farm land values. As long as inflation continued to increase there was no cause for alarm. Today's borrowings for land could be paid with the proceeds from selling the land at a higher, inflated, price tomorrow. The American farmer had become involved in land speculation.

However, loans made on the assumption of continuing escalation of land prices tend to go bad when inflation falls. At the end of 1979 the "bubble" burst. With inflation running as high as 12 percent annually in that year, the Federal Reserve policy of targeting interest rates was abandoned and replaced in the fourth quarter of 1979 with one targeting various measures of the money supply. With the tighter monetary policy which accompanied this change, the prime rate, which had been as low as 6.25 percent in 1977, reached 15.50 percent by the end of 1979. Interest payments on farm debt likewise escalated.

Farmers stuck with large debt service from such loans needed to use larger portions of net profits to meet the interest payments. For example, during the 1950s the average annual interest expense was 17 percent of average income from farm assets. By 1979, this percentage had risen to 56 percent. Unfortunately for farmers in this bind, the ensuing global recession of 1981-1982 not only placed a damper on export demand, but also reduced the rate of inflation. Consequently the rapid appreciation in farm land values halted at the same time that

appreciation in farm land values halted at the same time that world demand for agricultural products fell. Farm income plummeted from $32.3 billion in 1979 to $16.1 billion by 1983. In terms of real dollars, farmers in 1983 had less income than they had in 1933 during the depth of the Great Depression, while interest expense was rising due to record high interest rates. By the first half of the 1980s, the interest expense of farmers rose to 110 percent of farm income from assets.[4/] The impact of this trend may be seen in Table 1. below which shows a comparison of farm sole proprietor returns with business sole proprietor returns for net losses.

Table 1. Percent of Schedules F and C Reporting Net Losses, Tax Years 1976, 1979 and 1982*

	1976	1979	1982
Schedule F	53.24	52.24	65.31
Schedule C	23.67	26.39	33.00

* Calculated from SOI data.

Unless massive relief was made available to farmers, many would become insolvent from interest expense burdens alone. Unfortunately, the farm banks were in no position to lead a bailout as they too risked becoming insolvent due to their ever enlarging portfolio of nonperforming farm loans. Neither was the Federal Government willing to extend large amounts of relief due to the exploding budget deficit. Even with lower exchange rates, an improved world demand, and the existent price supports, there would continue to exist the problem of large interest expense. Lawrence Shepard wrote, "A $1 trillion agricultural capital stock that annually produces average returns of less than $20 billion cannot and will not sustain a debt load of $220 billion at double-digit interest rates."[5/]

Another important factor is that the distribution of this farm debt is uneven with respect to the distribution of farm assets. Even if interest rates were to fall, as they have, significant problems would continue to exist because over two-thirds of the outstanding debt is concentrated with farmers who control only one-quarter of the assets.[6/]

Presently we cannot generate an accurate, comprehensive picture of the farm sector from IRS data alone. However, it is known that Federal program farm payments tend to be proportional to farm production, which skews payments towards large farms. Farm proprietors who seek to maintain cash flow in the face of fixed interest expense and declining revenue have an incentive to gain control over the food marketing process. Food marketing costs account for over 70 percent of consumer expenditures for farm foods.[7/] Farm operations with resources to operate in this

area are at a decided advantage compared with those who must generate farm income from production exclusively. This places the small, labor intensive farm under 500 acres at a disadvantage.[9/] The alternative for these small farms is to supplant decreasing farm revenue with increasing amounts of off-farm revenue.[9/]

This brief synopsis of events sets the stage for today's current problems in the farm sector. Without massive aid there is likely to be an industry shakeout of those farms that are highly leveraged. It may be expected that this will have a substantial impact on the Service's work. Small farms will continue reporting genuine economic losses unless these trends in interest expense and declining revenue are reversed.

Tax Trends

Along with economic trends, certain aspects of the Internal Revenue Code create incentives to incorporate. Special clauses for the transfer of farm property, such as the deferred payment of estate taxes and the special-use valuation for land, can induce farmers to incorporate in order to reduce taxes that would result from the intergenerational transfer of a large family farm.[10/] As farm values inflated during the 1970's, incorporation facilitated the preservation of large family farms by reducing inheritance taxes that often would need to be paid through the selling of farm assets--most likely land. Other incentives to incorporate include the deductibility of fringe benefits such as health and life insurance premiums. The accumulated earnings tax prompts firms to continue to grow to avoid additional taxes on retained earnings above a specified amount, and to make further investments in farming, some of which qualify for tax reductions such as the Investment Tax Credit.[11/] These features provide for a greater range of deductions which are critical for an industry whose annual interest payments exceed its average net income. Finally, as explained by Davenport, Boehje, and Martin in The Effects of Tax Policy on American Agriculture:

> "Farm operations usually consist of several different assets; each asset has its own potential for tax sheltering. For some, it is high; for others, it is low or nonexistent. Farm tax advisors readily recognize these differences when making plans. The assets with high shelter potential are kept in the hands of individuals, and those expected to generate taxable income are placed in the corporation."[12/]

Trends in Compliance

We computed a statistic called the Voluntary Reporting Percentage (VRP), a measure of amounts reported on returns divided by amounts which should have been reported per TCMP exam. The VRP, unlike the Voluntary Compliance Level (VCL), is not a measure of compliance in reporting tax liability. It is, rather, a measure of the errors in reporting income or offsets to income or tax. For income items such as wages, dividends, or interest received, a VRP of less than 100 indicates the presence of unreported income for a particular line item. For items such as exemptions, deductions or credits, a VRP greater than 100 indicates that more offsets to income or tax were claimed than would be allowed upon examination. We use the VRP, rather than the VCL, when we need detailed information on particular line items with regard to how well the taxpaying population is complying with the Internal Revenue Code.

In analyzing compliance in reporting farm incomes, to use VRPs of net farm income, the traditional measure, would be a mistake. One result of the large and often painful transformations which have been taking place in the farm sector is the mushrooming of farms that are incurring economic losses on a continuing basis. These losses occur over and above the negative net incomes associated with tax loss farming to shelter non-farm income. The dramatic decline in VRPs for net farm profits from 69.9 percent to 34.4 percent over the period from 1973 to 1979 reflect the growing number of farms with real economic losses, rather than a sharp decline in compliance. To see why this is so, consider the following hypothetical case. Farmer A reports profits of $80, but upon examination is found to have net profits of $100. His VRP would be $80/$100 or 80 percent. Now suppose farmer B reports net profits of -$48, but upon examination they are found to be -$40. B's VRP would be -$48/-$40, or 120 percent. Note that in both instances the extent of correct reporting is 80 percent. If we were to sum A and B, reported net profits would be $32 ($80 - $48), and net profits per examination would be $60 ($100 - $40). For the two farmers taken together their composite VRP would be 53 percent. This discrepency, between 53 percent for the composite VRP and 80 percent for the individual VRPs, illustrates why an increasing presence of farmers with negative net profits may distort the average VRP for net income. Therefore, the net profit VRP for sole proprietor farms from 1973 to 1982 is of questionable value.

Except for this distortion in the VRP for net profit, there is no evidence that compliance for farmers has been declining. As may be seen from the figures in Table 2., Schedule F VRPs tend to be better than their Schedule C counterparts. For components making up net profit or loss there has been no deterioration between 1973 and 1982. Note that for interest expense, there is no evidence of industrywide overreporting by farmers. The VRP for this item was smaller for Schedule Fs than for Schedule Cs despite the large interest burden that the agricultural sector has had since 1979.

Table 2. Schedule F and Schedule C Voluntary Reporting Percentages* For Selected Items, Tax Years 1973 and 1982

	1973	1982
Business Receipts		
Schedule F	95.12	97.44
Schedule C	96.67	96.82
Total Deductions		
Schedule F	103.89	103.00
Schedule C	103.57	107.45
Interest Expense		
Schedule F	101.85	101.14
Schedule C	103.88	103.30

* Calculated from TCMP data.

Data Limitations

The data for Figures 1. and 2. were extracted from SOI publications of business (Forms 1065 and 1120) and individual (Forms 1040 with a Schedule F or Schedule C attached) income tax returns for various return years. The data series for farm business receipts underwent two changes in 1972. The first change inflated sole proprietor business receipts reported in Schedule Fs by including the incomes of passive farm landlords previously reported on Schedule Es. The second break in the statistics was due to a revision in the Standard Industrial Classification code that increased the number of corporate farm businesses. Consequently, farm business receipts also increased. These changes, however, were not large enough to alter substantially the trends depicted in Figures 1. and 2.

Conclusion

In this article we analyzed the transformations affecting the still large (in numbers) but declining (in market share) farm sole proprietor sector. One implication of the trends documented here is that net losses from farming have become common and that this accounts for a large part of the recent growth in the number of net-loss farm tax returns. Despite the farmers' predicament, we find no evidence from the TCMP data that would indicate a growing compliance problem.

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3/ Ibid.

4/ Ibid.

5/ Ibid.

6/ Ibid.

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10/ Davenport, Charles; Boehje, Michael; and Martin, David; The Effects of Tax Policy on American Agriculture. Agriculture Economic Report No. 480. Washington D.C.: USDA. 1982. p. 19.

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12/ Ibid., p. 23.

Levels and Significance of Tax Haven Use by Controlled Foreign Corporations

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Unlike individuals, large multinational corporations use offshore tax havens mainly to reduce their worldwide taxes legally, rather than to evade them illegally. However, there are exceptions to this rule. Moreover, because the law governing international transactions is complex and because information on foreign transactions, particularly in the tax havens, is difficult to gather, it is sometimes problematic to determine whether corporate use of tax haven jurisdictions is legal, illegal, or both illegal and criminally fraudulent. For this reason the volume of corporate activity in tax havens is of special interest to the Internal Revenue Service. This article, which focuses exclusively on U.S. corporate use of tax havens through their Controlled Foreign Corporations (CFCs), documents the rapid growth of tax haven CFC earnings and assets. The data show that between 1968 and 1980, CFCs of U.S parent corporations shifted growing proportions of their activities from foreign countries that are not tax havens to tax haven jurisdictions. However, there is no evidence that the growth of total CFC activity abroad, at least through 1980, has been at the expense of U.S. corporate expansion on the domestic front.

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Background

Although individuals as well as corporations use tax havens to reduce their tax obligations, this article will focus only on one form of corporate use of these jurisdictions. This use consists of doing business in or through these areas by establishing Controlled Foreign Corporations (CFCs) in these jurisdictions. For purposes of filing a Form 2952, Information Return with Respect to Controlled Foreign Corporations, a CFC is defined as follows: It is an entity incorporated in a foreign country which was controlled by one U.S. shareholder for at least 30 consecutive days during the taxable year of the foreign corporation.[1/] Not all corporate users of the legal systems and facilities of tax haven jurisdictions are tax motivated. Some, particularly banks, go to these areas to take advantage of exemptions from currency and banking controls that are granted to nonresidents to attract their business. As a rule, countries that promote themselves as tax havens provide extensive modern offshore banking and communication facilities and competent professional advisors, mainly international lawyers and accountants. Even so, the basic underlying and often exclusive

attraction of tax havens to corporations is the low or zero tax rates they place on most categories of income and wealth.

Most multinational business transactions of corporate giants routed through tax haven areas represent tax planning moves to reduce foreign or U.S. taxes by taking advantage of provisions in existing law. However, it is difficult to determine whether some of these transactions are perfectly legal because the laws governing them are complex and, therefore, subject to unintended interpretations. Often the problem lies in structuring the relationships between the parent and the controlled corporations in such a way as to make the application of anti-tax haven provisions ineffective. Furthermore, because of the secrecy laws in most tax havens, it may be difficult to gather all the necessary information to make a determination with respect to legality. Nevertheless, such determinations must be made either by tax administrators or the courts. That is why growing levels of tax haven use by CFCs (documented in Table 2 in the next section) imply growing workloads for the IRS and the courts.

A U.S. corporation can accumulate earnings virtually tax free if it succeeds in establishing a CFC in a tax haven country and, by various means, which are arguably within the bounds of the law, shifting some of its profits to that entity. U.S. corporations may also gain a second type of tax advantage by organizing subsidiaries they control in tax havens because the Internal Revenue (IR) Code permits worldwide consolidation of foreign tax credits. The allowable tax credit is limited to the U.S. tax which would have been paid on the foreign income, and not to the actual foreign tax paid on the foreign income earned in a given year. Therefore, a U.S. corporation can lower its total tax bill by organizing a tax haven CFC to which it may shift some of its foreign-source income earned in a high tax country.

Tax administrators are not concerned with the fact that corporations take advantage of legal provisions enacted to promote international investment. They are concerned with the fact that some clearly abuse these provisions as they aggressively try to press their advantages beyond the limits of the law. This is often done by channeling transactions through tax haven entities.

A major tool used to limit the tax advantages of tax havens is Subpart F, Sec. 951-964 of the IR Code. Provisions under Subpart F tax U.S. shareholders of CFCs on their proportionate share of certain categories of undistributed profits from tax haven activities and certain other activities of the CFC. Another principal approach used by the Service is the application of Section 482 regulations to tax haven transactions. Under Section 482, if two or more corporations are controlled by the same interests, the Service may reallocate incomes and deductions between or among them to prevent the evasion of taxes or to reflect more clearly taxable income. In other words, the Service may make reallocations to establish the true taxable

income which would have resulted if the controlled corporations had conducted their affairs as though they were independent entities (at arm's length).

Growing Levels of Use

The patterns of CFC growth and of CFC assets and earnings growth are compared in Table 1. with similar growth patterns of their U.S. parents and of other U.S. corporations. The data show that less than 5 thousand parent U.S. corporations out of about 2.7 million U.S. corporations, a mere 0.2 percent, generated well over half the net income earned by all U.S. corporations. This suggests that U.S. CFCs are owned mainly by giant companies, which tend to grow faster than other corporate businesses. Thus, between 1968 and 1980, the total assets of the parents increased by 419 percent, about 2.5 times faster than the assets of all other corporations. Since this rate of growth is not significantly slower than the 425 percent growth of CFC assets, it may be concluded that there was, on balance, no significant diversion of assets from the United States to the rest of the world when all foreign countries are considered together. However, the evidence suggests that CFC assets controlled by U.S. parents have been diverted from areas that are not tax havens to areas that are.

For such evidence see Table 2. Note the considerable detail on the growth from 1968 to 1980 in the earnings and profits and total assets of CFCs established in eight major tax haven areas and in all other areas. Unfortunately, however 1980 is the most recent tax year for which data on all CFCs are available. The data for 1982, which were prepared in late 1985, are limited to CFCs controlled by U.S. corporations with assets of $250 million or more. The tax havens included in the study are the Bahamas, Bermuda, Hong Kong, Liberia, Luxembourg, the Netherlands Antilles, Panama, and Switzerland. These are the most important tax havens so far as attracting U.S. direct investment is concerned. Notice that between 1968 and 1980, CFC assets in eight tax havens as a percent of all CFC assets had increased from 11.8 to 17.2, an increase of about 46 percent. These tax havens generally cover very small areas, collectively providing homes for less than half of one percent of the world's population.

The data on earnings and assets are shown separately for three industry groups which do not require heavy investments in physical assets. It is easier to divert the capital of these industries away from economically advanced countries with highly developed tax systems to areas where tax rates are low or zero. Thus, by 1980, 42.5 percent of the earnings and 31.4 percent of the assets of the finance, insurance and real estate industries were in the eight tax haven jurisdictions included in the study. The data in Table 2 also indicate that in these and other industries which offer the best opportunities for "creative accounting," such as wholesale trade and services, the percentages of total CFC earnings and assets in tax havens have, in

Table 1. Growth of U.S. Controlled Foreign Corporations (CFCs), Their Parents and Other U.S. Corporations

	Years			Percent Change From		
CFCs	1968	1972	1980	1968-72	1972-80	1968-80
Number	20,895	29,221	35,471	39.8	21.4	69.8
Total assets (in millions of dollars)	96,831	167,830	508,032	73.3	202.7	424.7
Current earnings and profits (less deficit) before tax (in millions of dollars)	7,744	15,356	47,622	98.3	210.1	515.0
U.S. Parents of CFCs						
Number	3,421	4,388	4,799	28.3	9.4	40.3
Total assets (in millions of dollars)	660,745	1,250,621	3,430,444	89.3	174.3	419.2
Net income (less deficit) (in millions of dollars)	41,327	46,614	137,638	12.8	195.3	233.0
Other U.S. Corporations						
Number	1,538,249	1,808,372	2,705,739	17.6	49.6	75.9
Total assets (in millions of dollars)	1,554,880	2,006,210	4,186,794	29.0	108.7	169.3
Net income (less deficit) (in millions of dollars)	44,635	50,147	101,369	12.3	102.1	127.1

Source: U.S. Department of the Treasury, Internal Revenue Service, Statistics of Income, 1968 and 1972, U.S. Corporations and their Controlled Foreign Corporations, Washington, D.C.: U.S. Government Printing Office, 1979 and unpublished IRS tables.

Table 2. Levels of Tax Haven Use by U.S. Corporations Through Their Controlled Foreign Corporations (CFCs)

Industry of CFCs	Year	Earnings Before Tax of CFCs: In Eight Tax Haven Areas	Earnings Before Tax of CFCs: In All Areas	Earnings Before Tax of CFCs: Percent in Tax Havens	Total Assets of CFCs: In Eight Tax Haven Areas	Total Assets of CFCs: In All Areas	Total Assets of CFCs: Percent in Tax Havens
		(In Million Dollars)			(In Million Dollars)		
All industries	1968	855	7,744	11.0	11,405	96,831	11.8
	1972	1,972	15,356	12.8	26,360	167,830	15.7
	1980	6,681	47,622	14.0	87,676	508,832	17.2
Finance, insurance and real estate	1968	109	358	30.4	3,712	13,381	27.7
	1972	422	1,190	35.5	11,257	35,097	32.1
	1980	2,048	4,822	42.5	40,597	129,263	31.4
Wholesale trade	1968	285	1,323	21.5	2,823	18,674	15.1
	1972	731	2,141	34.1	3,620	19,723	18.4
	1980	2,220	9,890	22.4	18,203	72,054	25.3
Services	1968	34	177	19.2	267	2,346	11.4
	1972	113	589	19.2	2,032	6,559	31.0
	1980	365	1,841	19.8	4,386	20,359	21.5
Other industries	1968	427	5,886	7.3	4,603	62,430	7.4
	1972	706	11,436	6.2	9,451	106,451	8.9
	1980	2,048	31,069	6.6	24,490	287,156	8.5

Source: U.S. Department of Treasury, Internal Revenue Service, Statistics of Income, 1968 and 1972, U.S. Corporations and their Controlled Foreign Corporations, Washington, D.C.: U.S. Government Printing Office, 1979 and unpublished IRS tables.

general, been both high and increasing over time.

The country detail of tax haven CFC earnings and assets are presented in Table 3. When the growth in these variables in the rest of the world is used as a standard of comparison, it becomes apparent that the rates of increase in earnings from 1968 to 1980 in some tax havens have lagged considerably behind the average growth rate. Others, however, have surged ahead at extraordinary rates. The rates of expansion in assets invested in the havens listed show less variation than the comparable rates of expansion in earnings. This is not unusual since fluctuations in economic conditions impact on earnings more than on assets. When the data on the number of CFCs in the tax havens are compared with both the data on earnings and assets, it is clear that, as a rule, particularly between 1972 and 1980, the CFCs in these areas have also grown in size.

It is difficult to separate the influence of changing economic conditions from the impacts of changes in tax incentives to use tax havens. Nevertheless, it is clear that at least part of the extraordinary growth of Hong Kong's CFCs is due to the very rapid economic advances in that area. On the negative side, the 51 percent decline in total earnings in Liberia in 1980 reflects the effects of the worldwide recession in shipping which started around 1979. Notice that the asset base in Liberia continued to increase from $4.5 billion in 1972 to $8.9 billion in 1980. In the Bahamas, however, the earnings decline from $353 million to $323 million over the same period was related to special transactions of one or two CFCs, rather than deteriorating economic conditions.

The spectacular increases in earnings and assets in the Netherlands Antilles between 1972 and 1980 reflect the stepped up borrowing of funds in Eurobond markets through the finance affiliates of U.S. corporations as credit markets tightened in the United States after 1977. These finance CFCs were established by multinational companies primarily to avoid the 30 percent statutory withholding tax on interest paid to foreign investors by taking advantage of a tax treaty in force with the Netherlands since 1948, which was later extended to apply to the Netherlands Antilles.[2/] Under the extended treaty, which was not intended to be used in this manner, CFCs would borrow abroad and relend the borrowed funds to their parents almost tax free.

The borrowing firms argued that the interest paid by the parent to its subsidiary is deductible and, under the treaty, exempt from the withholding tax. Interest payments of the CFC to the foreign lender are also exempt. Thus, the only tax imposed on the interest payments would be the tax on the difference between the interest received and interest paid out by the subsidiary, which typically would be at a very low rate, and might be creditable for U.S. income tax purposes.[3/] Not having to pay withholding tax on the interest paid enables the borrower to lower its capital cost since lenders are willing to accept lower interest rates if taxes are not deducted from their interest

Table 3. Growth in CFC Earnings and Assets in Tax Havens and Other Areas

Area	Earnings Before Tax of CFCs					
	Millions of Dollars			Percent Changes		
	1968	1972	1980	1968-72	1972-80	1968-80
Bahamas	93	353	323	279.6	-8.5	247.3
Bermuda	68	189	1,427	177.9	655.0	1,998.5
Hong Kong	34	99	730	191.2	637.4	2,047.1
Liberia	139	319	156	129.5	-51.1	12.2
Luxembourg	18	33	136	83.3	312.1	655.6
Netherlands Antilles	11	91	451	727.3	395.6	4,000.0
Panama	213	353	1,427	65.7	304.2	570.0
Switzerland	279	535	2,031	91.8	279.6	628.0
Rest of the World	6,889	13,384	40,941	94.3	205.9	494.3
	Total Assets of CFCs					
	Millions of Dollars			Percent Changes		
	1968	1972	1980	1968-72	1972-80	1968-80
Bahamas	1,324	2,540	7,525	91.8	196.3	468.4
Bermuda	740	2,087	14,132	182.0	577.1	1,809.7
Hong Kong	446	929	8,276	108.3	790.9	1,755.6
Liberia	1,622	4,467	8,856	175.4	98.3	446.0
Luxembourg	788	1,693	3,447	114.8	103.6	337.4
Netherlands Antilles	759	4,995	14,312	558.1	186.5	1,785.6
Panama	2,418	4,052	13,952	67.6	244.3	477.0
Switzerland	3,308	5,597	17,176	69.2	206.9	419.2
Rest of the World	85,426	141,470	421,156	65.6	197.7	393.0
	Number of CFCs					
	Number			Percent Changes		
	1968	1972	1980	1968-72	1972-80	1968-80
Bahamas	263	384	260	46.0	-32.3	-1.1
Bermuda	94	316	821	236.2	159.8	773.4
Hong Kong	167	318	665	90.4	109.1	298.2
Liberia	147	336	509	128.6	51.5	246.3
Luxembourg	70	111	97	58.6	-12.6	38.6
Netherlands Antilles	42	232	345	452.4	48.7	721.4
Panama	431	576	921	33.6	59.9	113.7
Switzerland	678	978	1,122	44.2	14.7	65.5
Rest of the World	19,003	25,970	30,731	36.7	18.3	61.7

Source: U.S. Department of the Treasury, Internal Revenue Service, Statistics of Income, 1968 and 1972, U.S. Corporations and their Controlled Foreign Corporations, Washington, D.C.: U.S. Government Printing Office, 1979 and unpublished IRS tables.

payments. With the repeal in 1984 of the 30 percent U.S. withholding tax on bond interest payments to foreign lenders, U.S. corporations can now borrow directly in Eurobond markets, instead of borrowing through Netherlands Antilles CFCs. Consequently, in time, the importance of this tax haven may be expected to decline.

Conclusion

While in the years ahead some havens may become less important as others become more important, the data on CFCs analyzed suggest that there is an upward trend in U.S. corporate use of tax haven jurisdictions. The discussion above drew attention to two principal anti-tax haven measures adopted to protect the U.S. tax base. Both of these principal measures are transactional in nature. Thus, in cases involving tax haven areas, the examinations or investigations conducted to determine whether U.S. taxes are being evaded must focus on specific activities and specific transactions one at a time. Even though such transactional approaches are expensive to administer, taxpayer awareness of inadequate use of these enforcement tools encourages abuse.

For the past few years, therefore, the Service has placed increasing emphasis on addressing problems created by the use of tax havens both by individuals and by corporations organized by U.S. entities. One indication of the moves IRS is making to meet the growing challenges facing it is the increase in the number of international examiners it employs from 200 in 1980 to 406 in 1985.

Notes and References

1/ Control of a foreign corporation is defined as direct and indirect ownership of stock possessing more than 50 percent of the voting power of all classes of stock entitled to vote or more than 50 percent of the total value of all shares of stock of the foreign corporation. Indirect control of a foreign corporation extends without limit from the directly controlled (first tier) foreign corporation through succeeding tiers in a chain of control.

2/ See Richard A. Gordon, Tax Havens and Their Use, by United States Taxpayers--An Overview, A Report to the Commissioner of Internal Revenue, The Assistant Attorney General (Tax Division) and the Assistant Secretary of the Treasury (Tax Policy), Washington, D.C.: Internal Revenue Source, 1981, pp. 149-50. Gordon further explains that, "The Netherlands Antilles adjusted its internal law to take advantage of the treaty by providing for special tax regimes for certain local holding companies."

3/ Ibid., pp. 153-4.

Trends in Banking*

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The next few years will see the number of U.S. banks decline. To most observers this is the most prominent trend in banking today. However, of relevance to the IRS is the evolution of a multi-faceted exchange and payment system based upon a combination of cash, personal checks, credit cards, and debit cards. Credit and debit cards should grow in usage during the 1990's. Additionally, bank operations are undergoing a transition from paper-based operations to electronic operations-mainly electronic fund transfers. The factors behind this change-over are an expansion of automated teller machines, and a resurgence of point-of-sale systems. As the IRS utilizes innovative techniques (i.e., the electronic filing of tax returns) it can learn of the successes and the failures of similar technologies if it continues to monitor developments in banking and related industries.

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Introduction

During the next ten years, the banking industry will continue to operate in a relatively deregulated environment, while at the same time, remaining a major source of information documents such as currency transaction reports (CTRs). Of course, with continued deregulation comes continued change. An example of this in banking is the anticipated decline in the number of banks from 15,164 in 1980 to approximately 9,600 by 1990. [1] The two explanations often put forward as to why this will happen are: 1) increased competition among banks in the market place, and 2) the advent of interstate banking spurred on by merger activity. To most observers this is perhaps the most relevant trend in the industry today. However, these developments may not be of the greatest interest to the IRS. How banks operate and the trends that effect their operations are of more concern to the Service than just the mere number of banks themselves.

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* The topic for this article was suggested by the District Director, Omaha.

Trends in the Exchange and Payment System

One of the main areas of activity for banks is the system of exchange and payment. At one time, this system was largely paper-based, but the introduction of new technology started an evolution in this area. Early forecasts of developments in the field saw a check-less American society by 1990. [2] These predictions have gone by the board and have since been replaced by some more conservative scenarios.

The coming decade of the 1990's will most likely see a multi-faceted system of exchange and payment. Cash and checks will see continued usage in the coming years, but these mediums of exchange and payment will not feature substantial growth rates. For example, personal check payments represented 22 billion transactions in 1982, and it is estimated this figure will be 28.8 billion in 1992. This represents an average annual growth rate of 2.8 percent. The story is similar when cash transactions are considered. In 1982, there were 184.2 billion retail cash transactions, and it is believed this figure will approximate 200.2 billion by 1992 with an average annual growth rate of 0.9 percent. As can be seen, neither cash nor checks appear as the "future" of the payments system.

This leads to the consideration of other mediums of exchange. Debit and credit cards should show significant increases in usage during the years ahead. In 1982 there were 64 million debit card transactions while the 1992 figure is predicted to be 1.4 billion. This works out to an average annual growth rate for debit card usage of 36 percent. For 1982, the figures for total debit card sales were $2.9 billion with $33.17 billion being forecasted for 1992 indicating an average annual growth rate of 28 percent.

The picture is not quite as clear cut for credit cards. The total number of credit card transactions is expected to increase from 4.3 billion transactions in 1982 to an estimated 5.2 billion by 1992. Should this scenario hold true this portends of an average annual growth rate of 2 percent. However, the credit card sales volume is expected to increase substantially over this same time. It is anticipated volume will grow from $157.0 billion in 1982 to $428.7 billion by 1992 representing an average annual growth rate of 10.6 percent. [3]

Clearly then, debit and credit cards will begin to play a larger role in the exchange and payment system used and run by banks along with other financial institutions. This is most assuredly an outgrowth of the overall deregulation of the industry.

With the coming of increased competition, many banks find themselves searching for new products or services that will enable them to maintain or increase their market shares. Hence, it is not surprising to see forecasts calling for increased use of debit and credit cards as these are the types of products or services that may let banks preserve a competitive edge.

Operational Trends

Given what is expected to happen over the next ten years in the exchange and payment system, it is only natural the operational trends of banks will tend to develop in a manner that is consistent with these forecasts. Operational trends should be of great interest to the IRS. The most prominent trend in this regard is the transition from paper-based operations to operations centered upon electronic fund transfers (EFT). Keeping with this line of thought, debit and credit card payment mechanisms should benefit from EFT. The factors behind this change-over from paper-based to electronic bank operations are: 1) an expansion of automated teller machines (ATMS), and 2) a resurgence of point-of-sale systems.

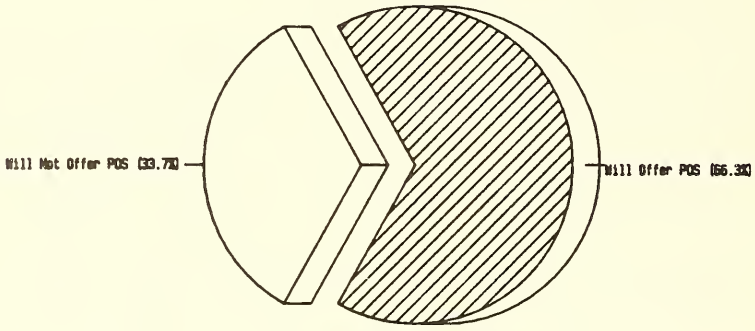
Presently it is estimated there will be about 60,000 ATMs in use throughout the U.S. This number could grow to 100,000 by the end of the decade. [4] On the surface, this bodes well for electronic banking, however, out of all the people who hold an ATM card, only 30 percent use it on a regular basis. Industry experts themselves are divided as to why the usage is so low. So why then, do banks and similar institutions look toward EFT as the key to the future? The reason is cost-savings. It has been estimated that it costs a bank 50 cents to process a check while the cost of an electronic transaction can range from between 26 to 49 cents. [5] Assuming that check processing costs will continue to rise, it is easy to see why banks favor EFT. To facilitate growth in EFT usage, many banks are developing new marketing strategies and are attempting to educate their customers.

One of these strategies is the point-of-sale (POS) system. A typical POS system operates in the following fashion. A customer makes a purchase in a retail store. The customer would insert his "debit card" into a specially designed ATM-like terminal, and through a sequence of commands authorize his bank to immediately debit his checking/savings account for the amount of the purchase and credit the money to the retailer's account. Early attempts at POS systems failed during the 1970's due primarily to insufficient communications between the banks and the system's users like merchants and consumers. Since these early attempts, several things have occurred which make the current environment more amenable to POS.

First, technology has evolved to the point where POS type hardware will be more readily available. The previously noted expansion of ATMs is an example of this. Secondly, many potential users or benefactors of POS have begun to believe in the cost-savings the system may provide (reduction in paper processing, etc.). Gas stations, supermarkets, and convenience stores are just some of the businesses currently involved with POS systems. However, the most important development for POS is the establishment of nationwide shared information networks. Such networks will enable many banks to communicate with an assortment of merchants and consumers and vice versa. It is this characteristic of immediate or instantaneous communication that is so vital to the successful implementation of POS.

It appears that banks are preparing to move ahead with POS implementation. A survey of operations officers revealed that 66.3 percent of those polled planned to actively participate in POS within five years. Only 33.7 percent of the surveyed institutions had no plans for POS participation. The figure below presents the results of the survey. [6]

Figure 1. Banks and Other Financial Institutions That Will Have POS In Place Within Five Years.



Not all industry analysts believe POS to be the boon for banks its advocates claim it is. Some question the belief that direct debit POS transactions will help to eliminate checks. Rather, they believe direct debit will lead to the replacement of currency transactions. Also, they question whether hardware costs would put POS out of the reach of most merchants-- estimating conversion costs to be anywhere from $10,000 to $20,000 per store or outlet. [7] However, even those who predict a less than smooth transition towards POS seem to agree that its widespread adoption is coming.

Conclusion

Banking is changing although perhaps not as drastically as was once previously believed. A multi-faceted system of exchange and payment is emerging which in turn is generating a continuing emphasis upon electronic operations. As innovation continues, other services not yet mentioned in this discussion will be offered by the banks. Home banking is an example of this. Current forecasts see this service with limited availability at present with general availability seen by the 1990's. Presently, there are some tests being done in this area. [8]

This constant pattern of technological change within banking should be a signal to the IRS. As businesses and individuals change their operations or procedures to take advantage of new technologies,

so should the IRS. In this regard, IRS is undertaking several broad based Strategic Initiatives to strengthen voluntary compliance. One such initiative, SVC-13, is dedicated to developing Service guidelines on check truncation and electronic banking standards. This initiative's purpose is to outline what should be done so IRS will be able to handle the transition from a paper-based audit and investigative environment to an electronic transaction environment. Those areas of the Service which are most dependent on paper-based techniques to carry out their missions, Examination and Criminal Investigation, will be effected most by any resulting changes.

IRS also uses EFT in-house in several ways. One of these is paying vendor invoices. The Prompt Payment Act directs that all disbursements greater than $25,000 be made via EFT. The Accounting Sections in the Fiscal Management Branches of the Regions, and the Accounting Section of the Financial Operations Branch in the National Office initiate all such payments for IRS. Additionally, Criminal Investigation uses EFT to transmit recoverable investigative advances to the field. This year will see Collection go nationwide with its use of EFT to collect installment agreements. This concept, which was originally piloted in the Central Region, has yielded a default rate of less than half the standard installment agreement default rate. A second Collection pilot involves the use of EFT in the collection of in-business trust funds. Finally, Collection is exploring the possibility of applying EFT to levies on employers and banks.

These examples cited above draw a direct parallel to developing trends within the banking industry. By continuing to monitor trends in banking and related fields, IRS may learn the answer to some difficult questions on new technologies.

Notes and References

1/ Arthur Andersen and Co. and Bank Administration Institute, New Dimensions in Banking: Managing the Strategic Initiative, (1983), p. 14.

2/ Donna M. Gist, "The EFT-Check Tussle Outlasts The Predictions." Savings Institutions, (November 1984), p. 87.

3/ All figures cited in this paragraph and the preceding two paragraphs are taken from Gist, p. 89.

4/ Joan B. Goldberg, "EFT Finds New Vigor in 80's As Industry Irons Out Problems", Bank Systems and Equipment, (December 1984), pp. 42-43.

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7/ Nancy E. Grant, "Direct Debit POS May Add Costs Instead of Eliminating Them", Bank Systems and Equipment, (May 1985), p. 158.

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Home Computer Trends and Tax Preparation

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Proliferation of home computers is continuing, with the number of home computers expected to increase from 10 million in 1984 to 34 million by 1990. However, the rate of growth has slowed over the past few years and is expected to remain flat through the rest of the decade. Technological breakthroughs are continuing to make the personal computer more powerful and sophisticated, facilitating new applications. This is reflected in the number of new software programs available. Software sales are expected to grow 35 percent annually through 1990. These advances in personal computers lead to new possibilities in tax preparation. In 1985 as many as 2 million returns may have been computer prepared on home computers. Presently, software packages are the only method available for individuals to prepare their own returns on computer. Tax service bureaus used by CPA's and preparers do not offer services to individuals, and there appears to be no on-line/timesharing services which offer tax preparation services. Several options may become available to individuals in the not too distant future. The Service is currently conducting an electronic filing pilot project with preparer returns, and IRS' plans include tests on individual non-preparer returns. This article will first review home computer trends and then address tax preparation possibilities.

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Proliferation of Home Computers Continues

Personal computers are appearing in more U.S. households. As of 1985, approximately nine percent of all households owned a home computer, as compared to three percent in 1982.[1/] Additionally, over approximately the same time period, the percentage of persons not owning a personal computer who would very much like to have one increased from 14 to 20 percent.[2/]

Growth in the home computer market has been slower than originally expected and is expected to remain flat through the rest the decade. The following table shows the number of home computers installed during 1980 - 1984 and a projected figure for 1990. The number of units shipped is expected to remain constant at about 4 million a year through 1990.[3/]

* The topic for this paper was suggested by the District Director, St. Louis.

Table 1. Home Computer Installations and Shipments

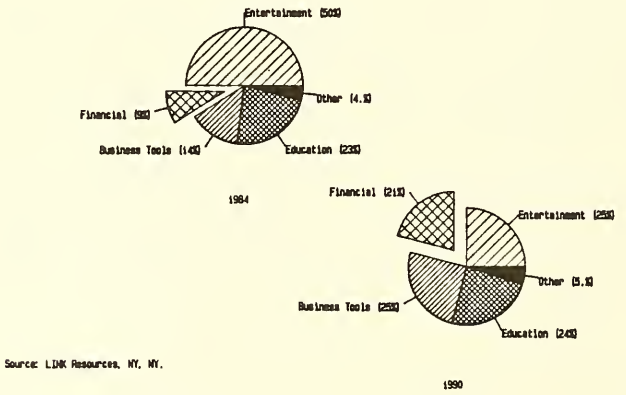
	Cumulative # of Units Installed	# of Units Shipped
1980	236,000	
1981	385,000	149,000
1982	2,133,000	1,748,000
1983	6,300,000	4,167,000
1984	10,000,000	3,700,000
1990*	34,000,000	4,000,000

*estimated
Source: IDC, Boston, MA

Expanded Uses

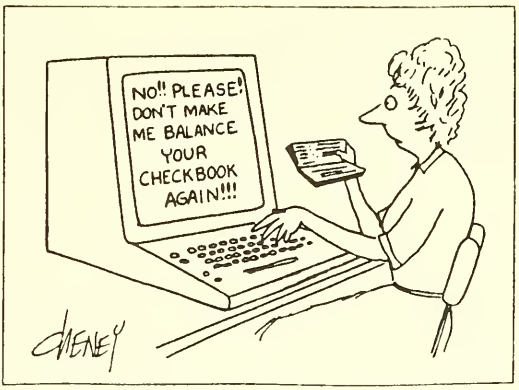
Technological advances in personal computers and peripherals are continuing at a rapid pace, along with an equally rapid decline in costs, facilitating new applications such as more powerful software, local area networks (LAN's) and gateways. One of the most important components of the home computer system is the software. Recent advances in hard and flexible disk densities have allowed software to become more sophisticated and user friendly. In 1984 consumers spent $618 million on software. Software sales are expected to grow 35 percent annually through the rest of the decade to produce sales of $3.4 billion in 1990.[4] Figure 1 shows how revenues are broken out among the different categories of software available in 1984 and the estimates for 1990. The largest percentage gain is expected to occur in financial packages which includes tax preparation software.

Figure 1. Software Sales by Category (%)



Source: LINK Resources, NY, NY.

Most financial software packages are currently available in a price range anywhere between $50 and $500. Market research, however, indicates that people don't use financial software on an ongoing basis.[5] A difficulty with such software is that it is extremely cumbersome to maintain throughout an entire year. To keep a complete and accurate budget that is useful at tax time, you must record every financial transaction. It may not yet pay in terms of time and money spent to have the computer balance your checkbook, only.



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This situation may soon change. The increased use of modems and communications technologies are increasing the availability of timesharing services, local area networks (LAN's), and gateways. Timesharing services are now the most predominant form of interactive computer use available to the home computer owner. LAN's, by themselves, are probably not going to directly impact home computer owners (they are more adaptable to business uses). However, because of the number of LAN's available (over 250, of which most are incompatible), "gateways", which provide for the interconnection of different LAN's, are becoming popular and are being offered by many companies. Home banking should lead the way in gateway applications. Limited availability of home banking services is projected for the mid to late 1980's with general availability by the 1990's.[6]

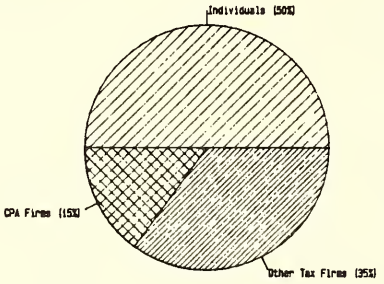
The forementioned home computer trends have opened a wide avenue for computer prepared returns. In 1985, approximately 1.5 to 2 million returns were prepared by individuals on a personal computer. This is up from an estimated 10,000 in 1980.[7] There are presently two methods of computer preparation available: tax preparation software packages and computer service bureaus. Two future possibilities include interactive timesharing services, offered by companies other than tax preparation service bureaus, and electronic and magnetic media filing, offered by IRS, which are still in the developmental stage.

More Tax Preparation Software Available

There are now well over fifty vendors of tax preparation software, as compared to only a handful in 1980. The packages are typically user friendly (meaning menu driven) and do not require much computer literacy. The current year's tax tables are contained in the programs allowing individuals to automatically calculate

their total tax. A big advantage of such programs is that it allows the user to experiment with different tax scenarios with little difficulty. Because of these characteristics, such software packages have a mixed customer base. Howardsoft, the maker of the top selling program, "Tax Preparer", claims its customers consist of 15 percent CPA's, 35 percent other tax firms, and 50 percent individuals (see Figure 2). [8]

Figure 2. Purchasers of Tax Preparation Software



Source: Howardsoft, La Jolla, CA.

Unfortunately, the quality of these packages varies. Almost every program has at least one bug, which may not be readily apparent. Another drawback with such packages is that, due to changes in tax forms and the law, yearly updates are required. Some firms reportedly do not provide yearly updates as such, but require an individual to purchase a new version of the package every year. Most will offer yearly updates for one-quarter to three-quarters of the cost of the original. [9] In addition to software designed solely for tax preparation, spreadsheet programs such as LOTUS and SUPERCALC can also be used to compute taxes. These are, however, designed for multiple uses.

Timesharing Not Yet Available For Individuals

On-line tax preparation is currently the domain of tax preparers and CPA's working through service bureaus which complete a majority of these preparers' returns. The service bureaus offer batch processing, in addition to interactive processing. This has the distinct advantage of allowing access to a computer without requiring huge outlays of capital. These services require only a terminal, modem, and telephone to be in continuous communication with the computer.

Service bureaus' have been hesitant to offer tax preparation services directly to individuals because of concern of under-cutting their primary customers, the preparers. They have also indicated that profits do not justify the potential problems of having individuals interacting directly with them. One firm has indicated that it would like to reach the average taxpayer, but market tests indicated little interest on the part of the public. They believe individuals need more inducement in order to use a service bureau. 10/

Timesharing services for tax preparation, offered by other than service bureaus (e.g. financial institutions), are currently not available. The cost is still considered to be prohibitive and other options have seemed more viable to such companies. 11/ Combined service gateways may soon make such a scenario feasible. Banks appear to be a natural provider of tax preparation services, especially those offering other financial services, or linking into combined service gateways as discussed previously.

Electronic and Magnetic Media Filing

A test of electronic filing by tax preparers is being conducted in three metropolitan areas (Cincinnati; Raleigh-Durham-Fayetteville; and Phoenix) this filing season. As currently envisioned, the potential exists for up to one-third of all individual returns to be filed electronically by 1991. Based on the outcome of the test and the success of a program for preparers nationwide, such a program could be expanded to include direct electronic filing by individuals, using commercial telecommunication networks to transmit their returns to IRS.

Direct electronic filing by individuals would involve high costs in terms of dollars and time. Besides a home computer or access to a computer, requirements would include: a modem, return preparation and communications software based on IRS specifications ("Electronic Filing Ready Software"), verification of the return with a signature or electronic equivalent, as well as submission of supporting documents to the Service. Service bureaus, because of their experience with preparer returns, eventually may play a major role in electronic filing for individuals. They will already have the equipment and programming expertise to communicate the returns to the Service. Accessibility to networks may be offered by a variety of companies other than service bureaus, telecommunication companies being a likely candidate. Rather than take on the cost and problems associated with direct electronic filing, individuals may choose to take advantage of a service offered by preparers for a small fee -- electronic filing of returns prepared by the taxpayers themselves. This new service will be offered by certain preparers during the 1986 filing season.

Verification of taxpayer's identity is perhaps the biggest constraint to individual filers. For the purpose of the current pilot, the Service views participating preparers as third parties with limited power of attorney. Returns submitted by them can be processed before the IRS receives Form 8453 (which contains the

signature of the taxpayer) and related paper documents from the preparer. If the Service were to accept electronic returns directly from individuals, it could not complete processing the return until the signature was received, diluting one of the primary benefits of electronic filing--faster refunds. In the future, perhaps as early as 1988, a digital signature or equivalent (e.g. smart cards) may be developed by the market as a greater need for it evolves. Resolving the authentication problem will remove the obstacle to offering direct electronic filing as an option to individual taxpayers.[12]

Conclusion

The home computer is becoming an increasingly popular method by which individuals prepare returns, as demonstrated by the increase in tax preparation software. In the near future, individuals with home computers will continue to be limited to using microcomputer software to prepare returns. Those with modems may have the option of using service bureau's computers and having them transmit the return electronically to the Service. Individuals will also take advantage of tax preparation firms offering to transmit prepared returns. Electronic filing via home computer directly to the IRS does not seem likely as an operational program in this decade. However, as advances in computer technology make more options available for home computer owners, the trend towards tax preparation via home computer should continue.

Notes and References

1/ Roper Reports 85-4, pp.38-39.

2/ Roper Reports, 84-7, p. 241.

3/ Information provided by International Data Corporation (IDC), Boston, MA.

4/ Information provided by LINK Resources, New York, NY.

5/ Newsweek, December 31, 1984.

6/ Environmental Scan of Electronic Financial Record Keeping, Internal Revenue Service, PM:PFR:P, pp. 16-18.

7/ Information provided by HowardSoft, La Jolla, CA.

8/ Ibid.

9/ Ibid.

10/ Interview conducted by Erik Puskar of IRS, with Mike Crump of Unitax, Los Angeles, CA, October 1985.

11/ Interview conducted by Erik Puskar of IRS, with Barry Berkhov of Compuserve, Colombus, Ohio, October 1985.

12/ The information for this entire section was provided by the Internal Revenue Service, Electronic Filing Office, PM:PFR:R.

The Aging U.S. Population: The Impact of the Increasing Number of Elderly Persons on Tax Administration

by
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This article explores the trend in aging of the U.S. population and its associated impacts on tax administration. With the population age 65 and over increasing more rapidly than all other groups, the Service should expect greater challenges in reprogramming resources required for returns processing, taxpayer assistance and other operational programs in the forthcoming decades.

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Introduction

The demographic composition of the United States population has been changing dramatically over the past several decades. The number of persons age 65 and over is growing faster than any other age group. In fact, the median age of the population (the age at which half is younger and half is older) rose from 27.9 in 1970 to 30.9 in 1983; it is expected to reach 36.3 by the year 2000 (see Table 1.). Demographers attribute most of the "aging" of the U.S. population to the baby-boom generation. Born between 1946 and 1964, baby-boomers presently account for 75 million persons, or one of three Americans.[1/]

Table 1. Estimates and Projections of Median Age: U.S. Population 1950 to 2010

Year	Median Age	Year	Median Age
Estimates		Projections	
1950	30.2	1990	33.0
1960	29.4	2000	36.3
1970	27.9	2010	38.4
1980	30.0		
1982	30.6		

Source: U.S. Bureau of the Census, Current Population Reports Series P-25, No. 952 (May 1984)

The aging population trend is expected to continue as the older members of the baby-boom generation head toward middle age. Baby-boomers are typically marrying later in life and having fewer children. The average fertility rate (an indicator of the average number of births per female of childbearing age--15 to 44) declined from 3.7 in 1960 to 2.5 in 1970 and is estimated at 1.9 in 1982.

The baby boom, combined with decreasing fertility and increasing life expectancy, are the primary causes of our aging society. In 1982, 26.8 million persons were age 65 years and over--11.6 percent of the total population as shown in Table 2. This age group (65 and over) is expected to swell to 34.9 million persons in 2000--a 30 percent increase.

Income Sources of the Elderly

The increase in the number of elderly persons aged 65 and over has resulted in a proportionate increase in returns filed by the elderly relative to all individual returns filed (see Table 3.). A 1984 Statistics of Income (SOI) study on returns filed by the elderly during the 1977-1981 period shows that the components of adjusted gross income of the elderly differ from that of all other taxpayers. For their total income, older taxpayers depend more on pension, annuity, interest and dividend income. All other taxpayers depend more on salaries and wages as their primary source of income Table 4.).

The returns of elderly taxpayers reflect significant levels of savings and investments but low levels of salary or wage income when compared with all other taxpayers. For example, income data for 1980 indicate that 90 percent of elderly taxpayers reported interest income while 48 percent of all other taxpayers reported such income. For this same period, 40 percent of the elderly and 95 percent of all other taxpayers reported salary or wage income.

Table 5. indicates social security income accounted for 39 percent of the total income received by persons age 65 and over who filed tax returns for 1982. During the same year, personal assets accounted for one-quarter of the income of retirees compared to 22 percent in 1980. A combination of public and private retirement pensions provided more than 50 percent of the income received by the elderly (age 65 and over) in 1982. Between 1950 and 1970, the participation of workers aged 65 and over in the labor force declined dramatically because of mandatory age retirement provisions by many industries that provided pension coverage (see Table 6.). However, many elderly persons continue to remain on the tax rolls because their retirement income is adjusted for inflation. Some older workers remain filers because they work either full-time or part-time after initially retiring (see Table 7.).[2/]

There is a close correlation between the type of individual return (Forms 1040, 1040A and 1040EZ) filed and the percentage distribution of taxpayers by age. The results from the Opinion Research Corporation Mail survey of individual taxpayers for 1983 indicate that the median age was 45.5 for Form 1040 filers, 32.4 for Form 1040A filers, and 22.5

Table 2. Estimates and Projections of the U.S. Population and the Percent Distribution of the U.S. Population, by Age Cohort: 1950 to 2010
(Population in Thousands)

Year	Total Population*	Age (years) 18-24	25-34	35-44	45-64	65 and over
Estimates						
1950	152,271	16,075	24,036	21,637	30,849	12,397
	100.00	(10.6)	(15.8)	(14.2)	(20.3)	(8.1)
1955	165,931	14,968	24,283	22,912	33,507	14,527
	100.0	(9.8)	(14.6)	(13.8)	(20.2)	(8.8)
1960	180,671	16,128	22,919	24,221	36,203	15,575
	100.0	(8.9)	(12.7)	(13.4)	(20.0)	(9.2)
1965	194,303	20,293	22,465	24,447	38,916	18,451
	100.0	(10.4)	(11.6)	(12.6)	(20.0)	(9.5)
1970	205,052	24,712	25,323	23,150	41,999	20,107
	100.0	(12.1)	(12.3)	(11.3)	(20.5)	(9.8)
1975	215,973	28,005	31,471	22,831	43,801	22,696
	100.0	(13.0)	(14.6)	(10.6)	(20.3)	(10.5)
1980	227,704	30,347	37,593	25,881	44,493	25,174
	100.0	(13.3)	(16.5)	(11.4)	(19.5)	(11.3)
1982	232,057	30,367	39,481	28,144	44,574	26,814
	100.0	(13.1)	(17.0)	(12.1)	(19.2)	(11.6)
Projections						
1985	238,631	28,739	41,788	32,004	44,652	28,608
	100.0	(12.0)	(17.5)	(13.4)	(18.7)	(12.0)
1990	249,657	25,794	43,529	37,847	46,453	31,697
	100.0	(10.3)	(17.4)	(15.2)	(18.6)	(12.7)
1995	259,559	23,702	40,520	41,997	52,320	33,887
	100.0	(9.1)	(15.6)	(16.2)	(20.2)	(13.1)
2000	267,955	24,601	36,415	43,743	60,886	34,921
	100.0	(9.2)	(13.6)	(16.3)	(22.7)	(13.0)
2010	283,238	27,655	36,978	36,772	77,794	39,196
	100.0	(9.8)	(13.1)	(13.2)	(27.5)	(13.8)

*Includes age 17 and under.

Note: Figures in parentheses are percentages of the total population.

Source: Bureau of the Census, Current Population Reports, Series P-25 No. 952 (May 1984).

Table 3. Returns Filed by Taxpayers Age 65 and Over and Total Number of Returns filed by All Taxpayers: 1977 to 1982

Tax Year	Returns Filed by Taxpayers Age 65	Total Number of Returns Filed by All Taxpayers	Returns Filed by Taxpayers Age 65 and Over as a Percentage of Total Returns Filed
1977	8,028,371	86634640.00	9.26
1978	8,370,125	89771551.00	9.32
1979	8,661,655	92694302.00	9.34
1980	8,994,420	93902469.00	9.57
1981	9,878,319	95396123.00	10.25
1982	10654559.00	95701800.00	11.13

Source: SOI Bulletin, Volume 4, No. 1 (Summer 1984) and 1982 SOI Individual Income Tax Returns, Publication 79 (October 1984).

Table 4. Selected Components of Average Sources of Adjusted Gross Income Reported on All Returns Filed: 1977-1981*

Tax Year	Salaries and Wages		Pensions and Annuities		Interest		Dividends	
	Age 65 and Over	All Other Taxpayers	Age 65 and Over	All Other Taxpayers	Age 65 and Over	All Other Taxpayers	Age 65 and Over	All Other Taxpayers
1977	$8,448	$12,709	$4,583	$4,859	$3,546	$788	$4,644	$2,123
1978	$9,127	$13,775	$4,992	$5,353	$3,860	$845	$5,323	$2,295
1979	$9,781	$14,997	$5,314	$5,621	$4,372	$991	$5,521	$2,431
1980	$10,928	$16,337	$5,652	$6,207	$5,906	$1,322	$5,972	$2,565
1981	$11,586	$17,930	$6,218	$6,563	$4,644	$946	$5,737	$2,538

*Since each taxpayer did not report the same sources of income, averages were computed using the number of returns reporting that source of income.

Note: Interest and dividends were separately estimated from a composite total for 1981 based on previous filing experience.

Source: SOI Bulletin, Volume 4, No. 1 (Summer 1984)

for Form 1040EZ filers. As a group, persons of age 65 and over filed 18.2 percent of the Forms 1040, 6.1 percent of the Forms 1040A and 0.2 percent of the Forms 1040EZ. The trend in the growing number of taxpayers age 65 and over suggests a forthcoming increase in the more complex Form 1040 filings relative to the simpler tax forms.

Table 5. Sources of Income, Persons Age 65 and Over at the U.S. Level: 1980 and 1982

Sources of Income	Year	
	1980 Percent	1982 Percent
Social Security	39.39	39.39
Financial Assets	22.22	25.25
Wages and Salaries	19.19	18.18
Government Retirement	7.07	7.07
Pension and Annuity	7.07	6.06
Others	4.05	3.04
Railroad Retirement	1.01	1.01
Total	100.00	100.00

Source: Social Security Administration Publication 13-11871, January 1983 and March 1984

Effect of Tax Legislation on Elderly Return Filings

The Employee Retirement Income Security Act of 1974 (ERISA) allowed employees not covered by a qualified pension plan to set up their their own retirement plan, an Individual Retirement Account (IRA). The net result has been to retain or bring more elderly persons on the tax rolls. Originally, this Act was intended to cover a limited number of persons. More recently, coverage was broadened for IRA, KEOGH (H.R.10) and other deferred pension plans from which future elderly taxpayers will be drawing taxable income. In 1984, 16.4 million IRAs were established, and this number is projected to increase to 19 million in 1990.[3/] The impact of matching information documents of these varied income sources with master file tax data will increase the Service's document processing and matching workload.

Table 6. Labor Force Participation Rates of Older Workers by Sex, Annual Averages, Selected Years, 1950 to 1984

Year	Men	Women
	65 years and over	65 years and over
1950	45.8	9.7
1955	39.6	10.6
1960	33.1	10.8
1865	27.9	10.0
1970	26.8	9.7
1975	21.7	8.3
1976	20.3	8.2
1977	20.1	8.1
1978	20.5	8.4
1979	19.9	8.3
1980	19.0	8.1
1981	18.4	8.0
1982	17.8	7.9
1983	17.4	7.8
1984	16.3	7.5

Source: Bureau of Labor Statistics, Monthly Labor Review (November 1980) and Unpublished BLS data.

Table 7. Labor Force Participation of Workers Age 65 and Over - Full and Part Time - by Sex, 1981-1984 (Thousands)

Years	Men		Women	
	Full Time	Part Time	Full Time	Part Time
1981	949	862	455	679
1982	914	862	452	695
1983	938	832	448	709
1984	922	780	445	687

Source: Bureau of Labor Statistics unpublished data.

Legislation which taxes transfer payments or other untapped sources of income broadens the filing population, particularly of retirees. For example, the Social Security Amendments Act of 1983 has has subjected certain portions of social security benefits to taxation since tax year 1984. The purpose of this law is to impose tax on social security beneficiaries who receive a significant amount of income from other sources. Half of the social security benefits are taxable for single persons receiving more than $25,000 and married couples receiving more than $32,000 in annual income. Generally, this law will impact primarily on elderly taxpayers who receive income from several sources, including tax exempt income.

Impact of Elderly on IRS Labor Force and Workload

A projected decreasing supply of entry-level workers during the forthcoming decade is expected to create strong competition between IRS and other employers for employees. Current population estimates indicate 7.1 million fewer 15 to 24 year-olds in 1990 than existed in 1980. The diminishing supply of new entrants in the labor market will allow them to command higher salaries. The associated widening pay and benefit gaps between the public and private sectors will make it increasingly difficult for the Service to recruit and retain a quality work force in some occupational areas (e.g., accounting and computer science).[4/]

The Service may need to recruit older persons when developing alternative strategies for staffing to alleviate shortages in the workforce. Actively recruiting among the ranks of retirees who possess various skills and experiences may be one viable option available to the IRS to maintain an adequate staffing level for field operations. Many retirees are moving to nonmetropolitan areas and some seek employment on a part-time basis.

The trend in the rapidly-growing population of older taxpayers could impact on tax administration in several ways. Generally, older persons tend to be more law abiding as indicated by surveys of taxpayer attitudes. The Yankelovich, Skelly and White (YSW),Inc. study conducted May-July, 1984 profiles older taxpayers as the more compliant group. The compliance level for this group may increase considerably when the baby-boomers reach the age of 65 in the forthcoming decades. Demographers and social scientists feel that this group may engage in more independent contracting, self-employment and bartering activities than did their predecessors -- activities that generate potential compliance problems for the Service. It is not possible to predict the impact of these conflicting trends on the overall compliance of the baby-boomers as they approach retirement. Moreover, recent tax reform measures (expanded IRA and Keogh coverage and in some cases taxing Social Security benefits) suggest a continuing trend toward more taxpayer assistance requests by the elderly and a higher cost for returns processing.

As a group, older persons are much more politically active and demand more public services.[5/] In fact, this group has the political acumen and financing to work through their Congressional representatives to ensure their expected level of services is maintained. For

example, the National Association of Retired Federal Employees is very active and has one of the ten largest political action committee (PAC) funds in this nation.[6]

This outlook suggests that Taxpayer Service Division should expect an increase in requests for more taxpayer assistance. Presently, the Service is providing assistance to elderly and other taxpayers through improved education measures. For example, working relationships have been formed with professional organizations to distribute important changes to forms, information notices are sent in return mailouts and video clips of news releases are issued through the electronic media. The IRS is also exploring alternative technologies to replace or augment the quality of assistance provided through the Toll-Free Telephone, Volunteer Income Tax Assistance (VITA) and Taxpayer Counseling for the Elderly (TCE) programs.

The program to counsel the elderly (TCE) has received funding from a special Congressional appropriation since 1980. These funds are channeled through nonprofit organizations in the form of applied grants to provide free tax assistance to elderly persons. Table 8. reflects the increasing demand for assistance that taxpayers age 65 and over have imposed on the TCE program.

Table 8. Taxpayer Counseling for the Elderly Program

Filing Year	Appropriations ($ in millions)	Funds Spent ($ in millions)	Participating Sponsors	# Elderly Assisted (Thousands)
1980	1.0	750	3	30
1981	1.0	789	8	79
1982	1.0	715	8	116
1983	1.4	1,215	17	479
1984	2.0	1,240	19	515
1985	2.0	1,939	21	755

Source: Taxpayer Service Division

Conclusion

The decline in the fertility rate along with the increase in life expectancy and the associated increase in the population age 65 and over are expected to have major implications for tax administration in the forthcoming decades. The shift of the population by age, income and nonmetropolitan areas will reshape the way that individual returns are filed, processed and examined.

There is a close correlation between the complexity of returns filed and the median age of taxpayers. The faster growing and relatively wealthier population age 65 or over suggests forthcoming increases in the number of Form 1040 filers as opposed to Forms 1040A and 1040EZ filers. The return filing patterns of taxpayers mirror the

trends in personal wealth. An increasing number of more complex, itemized returns are expected to be filed by the 26 percent of the population over age 50 who controls three-quarters of the nation's financial assets. Tax reform measures in the pension area have also added to the complexity of older taxpayers' returns.

A rapidly increasing population of older taxpayers, who are politically vocal and more demanding of public services, suggests that the IRS will have to provide much more taxpayer assistance. A decline in entry-level workers will increase competition with the private sector for these workers and make it more difficult to recruit and retain a quality workforce, especially accountants and computer scientists. This may force the Service to attempt to retain its workers longer and to actively recruit from the ranks of the retired.

Notes and References

1/ "Snapshot of a Changing America", in **Time Magazine**, Volume 126, No. 9, September 2, 1985, p. 16.

2/ A "part-time worker," is one who works fewer than 35 hours a week as defined by the Office of Current Employment Analysis, Bureau of Labor Statistics.

3/ Mak, Marion, "Relationship of Individual Returns to Employment and Other Trends", **Trend Analyses and Related Statistics**, U.S. Department of Treasury, Internal Revenue Service, February 1985, p. 89.

4/ Morrison, Peter, "How Demographic Shifts Will Affect the IRS Mission," presented at the Internal Revenue Service's Research Conference on Trends Impacting Tax Administration, November 20-22, 1985, pp. 14 and 16.

5/ "Interim Summary, 1985 Research Conference on Trends Impacting Tax Administration", U.S. Department of Treasury, Internal Revenue Service, December 12, 1985, p. 2.

6/ "The Federal Diary", in **The Washington Post**, December 12, 1985, p. B2.

Newspaper Coverage of the 1985 Federal Tax Filing Season: A Content Analysis

by
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This paper presents the results of a content analysis of a sample of 118 articles which covered the IRS and tax-related issues. The articles appeared on April 14-16, 1985 and were extracted from 74 daily newspapers located throughout the country and the Associated Press wire service. The articles were examined to see (1) whether they were based upon interpretive or information reporting, (2) the major subjects covered, (3) the general stance of the articles towards the IRS and tax-related subjects and (4) types of themes communicated in articles. Findings show that while the largest number of the articles were based on interpretive reporting, most of the statements in these articles were neutral and provided information. The themes that statements supported are listed and discussed.

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Introduction

The mass media determines what is "news" and in many cases, it is the primary validating institution for statements about the world (Gamson 1984:38). Two major functions of the mass media are to (1) "make news" through transferring public events into happenings by the amount and length of attention devoted to them and (2) merely reporting what has happened and/or is happening. The latter supports the notion of objectively reporting events or the idea that "the event makes the news" while the former involves interpreting the importance and meaning of an event and consequently promoting a value position.

After completing a filing season where the news media extensively covered the IRS (i.e., computer program problems, delays in processing returns and mailing refunds, rumors of IRS workers destroying returns, and a mix-up in crediting taxpayer accounts), the IRS is interested in knowing how these subjects were covered by the news media. Specifically, (1) were these events and other tax-related issues generally "objectively" reported or were they mostly interpretations, (2) what subjects and events were covered, (3) did the news media take a positive, negative, or neutral stance towards the IRS and tax-related subjects, and (4) were certain themes communicated which could possibly be translated into public opinion about federal taxes and our present tax system?

In an attempt to provide insight into these questions, a analysis was conducted on a sample of 118 newspaper articles appearing in 74 newspapers and the Associated Press wire service during the last three days of the 1985 filing season (April 14-16). A sample was selected from a database of articles in the IRS Public Affairs Office.

April 14-16 was selected because besides providing a look at newspaper coverage on and immediately before and after the deadline for filing federal tax returns, it is also the time of the year when newspapers traditionally tend to focus more on the IRS and tax-related subjects. Also, it has been demonstrated that using consecutive days when analyzing newspaper content results in an overrepresentation of a particular issue or issues due to the fact that subjects are usually covered serially for a certain period of time (Carney 1972:141). Thus, by using three consecutive days coupled with a time when tax-related subjects are generally covered more extensively than at other times of the year, this sample should provide insight into how the subjects under review were covered.

Description of the Sample

For the three days being examined, there were 389 items (354 articles and 35 cartoons) available for study at the public affairs office at the national office of the IRS. To determine the posture of material appearing in the print media, statements (in which many are generated per article) were used as the recording unit. Consequently, it was not possible to analyze all 354 articles. A one-third random sub-sample stratified by day was drawn and a manageable database generated.

Forty percent of the 118 articles sampled for the three-day period appeared on April 15. Thirty-six and 24 percent appeared on April 16 and 14, respectively. These articles are representative of newspapers which have a total distribution of 16,974,425 (IMS/Ayer Directory of Publications: 1985).

Findings

Type of Reporting

The largest number of articles (71 percent) was based on interpretive reporting and informational reporting was used in the remaining 29 percent. Of the articles which basically provide information, approximately 70 percent appeared on April 15. Generally, the news media did information reporting on subjects such as the different tax reform plans and how to file tax returns but tended to do more interpretive reporting in articles on IRS computer problems, delays in processing returns and refunds, rumors of IRS workers destroying returns, and errors in crediting taxpayers accounts.

Regional Distribution of Newspapers Containing Sample Articles

An analysis of the articles by region (table 1.) showed that approximately one-fifth came from each of the Western and Mid-Atlantic regions, followed by approximately 13 percent from the Central and Southwest regions. While 41 percent of the articles came from the Western and Mid-Atlantic regions and the largest percentage of daily newspapers are located in the Southwest (18.5 percent) and Mid-West (16.1 percent), most of the newspapers in the sample were from the Southwest (18.4 percent) and Central (15.7 percent) regions. This can be explained by the possibility that (1) a subjective bias exists where the IRS employees in the Western and Mid-Atlantic regions tend to send more articles to IRS national office public affairs or (2) IRS and tax-related articles appeared more often in newspapers in these two regions during this three-day period.

Table 1. Distribution of Daily Newspapers, Sample Newspapers and Sample Articles by Region[1/]

	Daily Newspapers[2/]		Sample Newspapers		Sample Articles	
	#	%	#	%	#	%
Southwest	312	18.5	14	18.4	16	13.5
Mid-West	272	16.1	7	9.2	9	7.6
Central	258	15.3	12	15.7	15	12.7
Western	243	14.4	11	14.5	25	21.2
Southeast	231	13.7	6	7.9	6	5.1
Mid-Atlantic	186	11.0	10	13.2	24	20.3
North-Atlantic	185	11.0	11	14.5	11	9.3
National[3/]			2	2.6	5	4.2
Associated Press Wire Service			3	3.9	7	5.9
	1687	100.0	76	100.0	118	100.0

1/ IRS breakdown of regions used. Source: 1985 IRS Commissioner's and Chief Counsel's Annual Report

2/ IMS/Ayer Directory of Publication, IMS Press, 1984.

3/ The Wall Street Journal and USA Today are considered to be national newspapers because they are published primarily for national distribution.

Posture of Statements

Each statement was coded positive or negative depending on how it depicted the IRS, federal taxes and the federal tax system. Statements were coded as neutral if they did not fit in

either of these two categories. Even though, as noted above, the majority of the articles were based on interpretive reporting, Table 2. shows that the majority (55.4 percent) of the statements for the three days were neutral or informational statements. This is probably due to reporters presenting a balanced report of IRS and tax-related subjects and/or many of the subjects being noncontroversial. Of the remaining statements, 30.0 percent were negative and 14.6 percent positive.

Table 2. Statements According to Posture (positive, negative, and neutral) towards IRS and/or Tax System

	Day 14		Day 15		Day 16		Total	
	#	%	#	%	#	%	#	%
Positive	78	14.3	124	13.7	117	16.1	319	14.6
Negative	228	41.8	217	23.9	207	28.6	652	30.0
Neutral	239	43.8	566	62.4	400	55.2	1205	55.4
Total	545	100.0	907	100.0	724	100.0	2176	100.0

Tables 3. and 4. present the major themes that were supported by positive and negative statements, respectively while Table 5. lists themes supported by neutral statements. Eleven positive, 14 negative and 14 neutral themes emerged from the statements. Only the major themes (those supported by more than five percent of statements) will be discussed); minor themes (supported by less than five percent of statements) will only be listed unless they are related to a major theme.

Positive Statements

From the eleven themes that emerged from the positive statements, the greatest support (20.7 percent) was given to the idea that "the IRS catches people who don't pay their fair share of taxes," followed by "help is available for last minute filers" (17.5 percent), and "IRS performs positively in the midst of problems" (12.8 percent). Statements supporting the notion that the IRS catches tax cheats tended to highlight special areas of noncompliance (e.g., illegal and abusive tax shelters, money laundering, tax protesters) and how the IRS catches people who noncomply in these ways. This theme was seen as positive because it carries a potential deterrent message which could serve to increase voluntary compliance, although in the present study there is no way to test the effectiveness of publicizing tax-related prosecutions and indictments.

Statements providing "helpful" information to the general public noted that the IRS, post office, financial institutions (for opening IRAs) and tax preparers were extending hours of service. This could potentially encourage last minute filers to file timely.

Table 3. Themes and Number of "Positive" Supporting Statements from Articles on the IRS and Tax-Related Issues: April 14-16, 1985

Themes	April 14	April 15	April 16	Total	% of Total
IRS catches people who don't pay their fair share of taxes	22	9	35	66	20.7
Help is available for last minute filers[1/]	24	20	12	56	17.5
IRS performs positively in the midst of problems[2/]	9	12	20	41	12.8
Taxes pay for public services therefore you should not mind paying them	4	21	10	35	11.0
Tax reform will produce a fairer and simpler system	-	15	8	23	7.2
IRS does not make tax laws; it only enforces them	1	8	11	20	6.3
File timely and accurately[3/]	10	3	2	15	4.7
The majority of Americans pay their fair share of federal income taxes	-	5	6	11	3.4
An IRS audit is not an unpleasant experience	-	10	-	10	3.1
A fairer and simpler tax system is needed	-	4	2	6	1.9
IRS employees are helpful	4	1	-	5	1.6
Other[4/]	4	16	11	31	9.7
Total	78	124	117	319	100.0

1/ Help included extended IRS walk-in and telephone service, financial institution (for opening IRAs), and post office hours.

2/ IRS catching up/caught up in processing returns and mailing refunds in spite of computer problems.

3/ Information on return and extension filing deadlines, where to get help in completing returns and tips to help taxpayer file accurately.

4/ Statements which did not support an identifiable theme.

One interesting finding was that even though the IRS was having computer problems and was behind in processing returns and mailing refunds, statements tended to report when different service centers were on time or catching up (relative to last year) in the number of returns processed. These statements projected the image that the IRS was working very hard to overcome its tax processing problems and make sure the American taxpayers were inconvenienced as little as possible in receiving refunds. Statements supporting the theme that "the IRS is not a lawmaker but rather a law enforcer" attempted to help taxpayers understand the IRS role in administering the tax system (e.g., the IRS is only enforcing what elected representatives made law).

Positive themes that emerged from statements on tax reform revolved around the idea that "tax reform will produce a fairer and simpler system" and "the general public wants a fairer and simpler system." While these themes generally support the notion that a fairer and simpler system would make people more willing and feel better about paying taxes, the possibility exists that they may be communicating the message that the present system is unfair and too complicated. This could be carried a step further to "the system is unfair therefore I shall not participate in it" which is a potential justification for not paying taxes.

Other positive themes include: (1) file timely and accurately, (2) the majority of individual citizens pay their fair share of federal taxes, (3) an IRS audit is not an unpleasant experience, and (4) IRS employees are helpful.

Negative Themes

The negative statements in this study focused largely (22.1 percent) on IRS computer problems and reiterated the theme "the IRS performance this year is worse than in prior years." This theme was reinforced by giving comparative statistics on the number of returns processed and refunds mailed in comparison to last year; and referring to insufficient resources (i.e., staff shortages, overworked employees, poor work environment and budget cuts). Surprisingly, only two percent of these statements made a specific reference to the Philadelphia Service Center "problems". This is probably due to newspapers reporting on what was happening at IRS service centers where their readers' returns would be processed. Research on newspapers show that people tend to look to newspapers for local news (Ruben 1984:189). Another plausible explanation is that the Associated Press and United Press International Wire services picked up stories about problems associated with the Philadelphia Service Center without identifying it (i.e., "IRS" is having problems in processing returns).

Other major themes were: "the present tax system is unfair" (14.4 percent), "tax protesters avoid paying taxes" (11 percent), "tax forms and filing procedures are complicated and confusing" (7.5 percent), "many taxpayers file late or at the last minute each year" (6.3 percent), and "noncompliance is pervasive and

Table 4. Themes Supported by Negative Statements Extracted from IRS and Tax-Related Articles: April 14-16, 1985

Themes	April 14	April 15	April 16	Total	% of Total
IRS is performing worse this year than in the past	27	58	59	144	22.1
Present tax system is unfair	22	47	25	94	14.4
Tax protestors avoid/protest paying taxes	44	10	18	72	11.0
Tax forms and filing procedures are complicated/confusing	27	9	13	49	7.5
Many taxpayers file late or at last minute each year	4	21	16	41	6.3
Noncompliance is pervasive/ increasing	12	15	13	40	6.1
IRS has too much power which it wields ruthlessly	14	5	8	27	4.1
Special interest groups are lining up to keep their loopholes/favorite deductions in tax reform plans	3	10	13	26	4.0
Filing taxes is an unpleasant task	11	6	5	22	3.4
IRS ability to maintain/increase compliance is decreasing	2	5	11	18	2.8
IRS is unorganized and gives inconsistent answers	16	-	-	16	2.4
The number of tax protesters is increasing	13	-	-	13	2.0
Tax cheaters are hard to detect	8	3	2	13	2.0
Amount of money citizens pay each year for taxes is increasing	-	10	1	11	1.7
Other[1/]	25	18	23	66	10.1
Total	228	217	207	652	100.0

1/ Statements which did not support an identifiable theme.

increasing" (6.1 percent). The idea that the present tax system is unfair was supported by citing cases where corporations pay little or no taxes, how certain citizens have ways to reduce their taxes legitimately, and sections of the tax code that were written to support special interest groups. Also, the unfairness that exists in types of deductions people could take based on what the taxpayers' occupation or major source(s) of income were noted.

Discussions of tax protesters tell ways taxpayers avoid paying taxes as a way of protesting (1) having to pay taxes and (2) the way their taxes are spent. Included in several of the articles were reports that "the number of tax protesters is increasing."

The complexity and confusion associated with completing and filing returns was emphasized by statements about how tax forms and regulations change each year and the number of questions and complaints the IRS receives about completing returns. Thus, according to some articles, many taxpayers don't file and others make errors due to ignorance.

Statements which discussed taxpayers filing late or at the last minute were coded negative if they were seen as encouraging others to do so. These statements tended to project the image that filing late or at the last minute was the norm or becoming the norm. For instance, many stated that a large number of people are filing late this year and more and more taxpayers do it each year. Saying that the IRS does not check last minute returns because there are too many was seen as encouraging taxpayers not to file timely.

The theme "noncompliance is pervasive and increasing" was supported by reports of people who do not pay their fair share of taxes (e.g., underground economy, nonfilers, and tax cheats); statistics on the decreases in voluntary compliance; and reports of the amount of taxes that are owed but not paid.

Minor themes not discussed above are: (1) the IRS has too much power which it wields ruthlessly, (2) special interest groups will keep loopholes/favorite deductions in tax reform, (3) filing tax returns is an unpleasant task, (4) IRS ability to maintain/increase compliance is decreasing, (5) IRS is unorganized and gives inconsistent answers, (6) tax cheaters are hard to detect and (7) the amount of money citizens pay each year for taxes is increasing.

Neutral Statements

The largest number (26.2 percent) of the neutral statements provide information on refunds, filing extensions, IRAs, and mailing and processing returns. Generally speaking, this information can be used in most case as an aid in completing and filing returns. The second and third most discussed "neutral" topics were last minute filing and tax reform.

Table 5. Themes and Number of Supporting "Neutral Statements from Articles on the IRS and Tax-Related Issues: April 14-16, 1985

Subject	April 14	April 15	April 16	Total	% of Total
Filing federal income taxes[1/]	74	196	46	316	26.2
Last minute filing	17	62	126	205	17.0
Tax reform	22	102	60	184	15.3
Tax and tax-related criminal cases & illegal activities[2/]	29	20	31	80	6.6
Tax protestors[3/]	27	16	14	57	4.7
IRS performance[4/]	4	30	20	54	4.5
Legal/acceptable ways to cut taxes[5/]	17	7	14	38	3.1
Completing forms and filing procedures	8	4	17	29	2.4
Structure of the present tax system	6	15	7	28	2.3
History of taxes	1	24	2	27	2.2
IRS enforcement[6/]	5	12	-	17	1.4
Filing state income taxes	1	13	2	16	1.3
Early (federal income tax) filers	2	6	5	13	1.1
What federal taxes pay for	1	5	4	10	.8
Other[7/]	25	54	52	131	10.9
	239	566	400	1205	100.0

1/ Information on deadlines (return, extensions, IRAs); refunds (when to expect, average amount and interest government will have to pay); how to file for an extension; IRAs (maximum amounts, number of people buying); mailing return; and processing returns.

2/ Lists sentences and reasons for indictments and investigations in tax and tax-related cases. Also describes injunctions, investigations, and registrations for abusive and illegal tax shelters and money laundering activities.

3/ Description of protest demonstrations, types of protesters and reasons for protesting.

4/ Status of processing returns and mailing refunds without comparative figures (e.g., more than or less than prior year) and; descriptions of what caused delays.

5/ Loopholes and legitimate deductions.

6/ IRS audit procedures, computer matching of returns, money tracking system (to discourage money laundering), and usage of people and organizations as examples to discourage noncompliance in certain areas.

7/ Statements which did not support an identifiable theme.

Seventeen percent of the neutral statements were on last minute filing and 15.3 percent discussed tax reform or the various tax reform proposals. The statements which discussed last minute filing gave statistics on the number of people waiting until the last minute to file and those who have yet to file in the context of describing IRS Taxpayer Service offices, banks, tax preparers and post offices at the end of the filing season. While certain statements on last minute filing were reports of factual information (e.g., number of people filing late or at the last minute), these could be interpreted by taxpayers as an indication that they are not alone if they have not filed their federal taxes. This message could make taxpayers feel more comfortable with filing at the last minute or late. Thus, taxpayers could also easily reason that many who have not filed at this late date probably will not.

Topics related to tax and tax-related criminal cases and illegal activities were the focus of approximately seven percent of the neutral statements. Injunctions, investigations, and registrations for abusive and illegal tax shelters, and indictments and investigations of tax-related crimes are examples of subjects covered by these statements.

Other categories of neutral statements (containing less than five percent of total neutral statements) described tax protest activities, areas of noncompliance, IRS performance, legal ways to cut taxes, how to complete and file tax returns, the structure of the present tax system, history of taxes, IRS enforcement, filing state income taxes, early filers, and what taxes pay for.

Summary

Based on overall subject matter of the articles and the neutral stance of the majority of the statements, the news media represented in this study basically provided information on filing taxes, the IRS, and the tax system. Of the position-oriented statements, there were approximately twice as many negative as positive statements. The largest portion of the negative statements concerned IRS performance relative to last year. In contrast, the greatest number of positive statements support the idea that the IRS catches people who don't pay their fair share of taxes. Given the topics covered during the period of the study and the large number of neutral statements, the media seemed to have presented a balanced view. However, the content of statements in this study suggest that the media sends out mixed messages; some are positive and some are negative.

We plan to repeat this study using articles appearing in newspapers on April 14-16, 1986. Findings from the two years will be compared for similarities and differences in themes, subjects covered, and posture of statements towards the IRS and tax-related issues.

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SECTION IV

Research Abstracts

Planning, Finance and Research

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Bird, Michael

"Estimates of the Number of Returns Eligible For Return-Free Tax Systems." July 1985. 1985. Compliance Estimates Group PM:PFR:R

The Number Of Returns Eligible For Various Return-Free Tax Systems Was Projected To Tax Year 1989--Overall, 43 Percent Would Be Eligible

Using 1979 TCMP data, estimates of the number of returns eligible for various return-free tax systems were developed and projected to tax year 1989. The number of simple returns--1040EZ's or 1040A's with no charitable or public candidate contributions--eligible for the return-free system was estimated to be 20 million or 18 percent of all returns. In addition, if other simple returns were also eligible for return-free systems, an estimated 48 million or 43 percent of returns would qualify overall. Ineligible taxpayers would include those who file joint returns that have itemized deductions, have income that require separate schedules (except pensions) or credits, or have any return item that is not covered by existing information documents.

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Bland, Mary Jean

"Collection Resource Models." August 1985. Resource Models and Special Studies Group PM:PFR:R

These Models Will Aid Collection's Budget Planning And Resource Management Management

The principal role for these models is to aid budget planning and resource management. The models depict, in an aggregated fashion, the operation of the accounts receivable and delinquent return programs. They simulate the flow of potential balance due notices or notices of possible delinquent returns through to the disposition of such cases and estimate their revenue yield.

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Burgess, Frank

"Alimony Not Reported as Income Pretest."
December 1984. Computer Based Compliance Research Group PM:PFR:R

Significant Compliance Problems By Payers And Recipients Of Alimony

A limited pretest found the Voluntary reporting Percentage (VRP) for the alimony payers identified in the study to be about 80 percent. The VRP in reporting alimony income for recipients in the study who filed returns was estimated at 56 percent. A significant number (about 24 percent) of the alimony recipients who did not report the alimony income also did not file tax returns.

Regulations under the Deficit Reduction Act of 1984 require that recipients of alimony provide their SSN's to the payers, who in turn are required to enter the SSN on their tax returns, effective for payments made after December 1984. A computerized alimony deduction/income matching program using this SSN reporting has been designed for tax year 1985 returns.

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Burgess, Frank

"Duplication of Exemptions for Dependents."
September 1985. Computer Based Compliance Research Group PM:PFR:R

Dependent Children Claimed By Both Separated Parents Can Be Identified By Computer Matching Techniques

This study tested computer matching techniques to identify separated/divorced parents (not including those who remarried) who appeared to have claimed the same dependent children. The matching techniques were successful and a compliance test of a service center correspondence program was conducted. Most cases (71 percent) which were adjusted involve non-custodial parents erroneously claiming dependent children. Legislative changes already made should improve the reporting to dependent children away from home and also allow a simplified compliance program to be conducted.

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Chaurette, Kathy

"Income Averaging Compliance." August 1985. Compliance Estimates Group PM:PFR:R

An Estimated $4 Million Of Additional Revenue Could Be Assessed Using An Automated Enforcement System

An automated enforcement system to improve income averaging compliance has been tested using 1979 TCMP data. The test compared entries filed on Schedule G's with information from prior-year returns. Since some Schedule G returns are selected through the DIF program for examination, a portion of the income averaging tax gap associated with examinations was subtracted to estimate potential yield. Tax understatement according to 1985 law was estimated at $4 million. This additional revenue could be assessed using an automated enforcement system. The yield/cost ratio for implementing and maintaining such a program was estimated to be approximately 40:1 based on the 1985 additional revenue estimate. Given the high initial estimate of the yield/cost ratio for an automated enforcement program, further analysis, using 1982 TCMP data, is strongly recommended if the income averaging provision is not repealed during the current legislative session.

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Chaurette, Kathy

"Royalty Income Reporting." August 1985. Compliance Estimates Group PM:PFR:R

The Tax Liability Associated With Underreported Net Royalty Income For 1979 Is $92 Million

Net royalty income was underreported by $262 million on 1979 individual income tax returns, according to an analysis of TCMP files. This amount was distributed across four components: $6 million of the underreported income was due to an understatement of IRP-covered gross receipts; $98 million from gross receipts not associated with IRP documents; $9 million resulted from overreporting depletion; and, $149 million was due to the overstating of other expenses. The tax liability associated with underreported net royalty income is $92 million.

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Fox, Shelly

"Pretest of Perfecting the Reporting of Interest on Seller Mortgages." September 1985. Computer Based Compliance Research Group PM:PFR:R.

SSN's Needed To Identify Recipients Of Interest On Seller Financed Mortgages

This test monitored compliance in the reporting of interest income from seller financed mortgages associated with the sales of privately owned residences. The test indicated the Service's inability to accurately identify noncompliant recipient returns in the absence of a social security number provided by the payer and a proposal for a legislative change to allow the Service to require payers to furnish recipient SSN's is recommended. Further work to develop an operational program may be in order if such legislation is enacted.

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Harris, Leslie and Perng, Shien

"Research Into Methodologies for Development of Audit Case Selection Systems." September 1985. Statistical Methods Group PM:PFR:R

Potential Improvements Can Be Made To The Service's Audit Case Selection Systems

Two different statistical techniques were used to develop an audit case selection system. An exploratory data analysis technique, referred to as ESS, was tested on Examination Class 5 (medium nonbusiness). Regression analysis was tested on Examination Classes 5, 6 (high nonbusiness), 8 (medium nonfarm business) and 11 (medium farm business).

Results suggest that the regression and ESS methods have the potential for improving the Service's audit case selection system. The regression models and ESS models will be tested for their ability to be replicated with more recent TCMP data (tax year 1982 individual income tax returns) after which decisions will be made regarding implementation.

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Hays, Richard

"Accountants and Auditors: A Summary of Recent Trends and Forecasts." July 1985. Projections and Forecasting Group PM:PFR:R

The Service Will Face Stiff Competition For Well Qualified Accounting Graduates Over The Next Several Years

IRS usually hires between 1,500 and 2,500 accounting professionals each year. The Service will compete for applicants along with public accounting firms; business and industry; other government agencies at the federal, state and local levels; and, other prospective employers. This report was prepared to assist IRS managers in planning recruitment strategies to attract the best qualified candidates to careers with IRS and contains information on three broad areas:

- The size of the annual pool of accounting graduates, associated growth trends and geographical distribution;
- Projected total demand for accounting graduates along with major sources of demand; and,
- Starting salaries.

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Kenadjian, Berdj

"Net Tax Gap Research." July 1985. Compliance Estimates Group PM:PFR:R

Approximately $8.3 Billion Of The $75.3 Billion 1981 Gross Individual Tax Gap Was Or Will Be Closed

Estimates of the net 1981 income tax gap for individuals have been made. To do this, amounts which have been or will be collected through IRS enforcement activities were subtracted from the estimated 1981 gross tax gap. The gross tax gap is the difference between the aggregate amount of tax owed and the aggregate amount voluntarily paid for a given tax year. The study found that $8.3 billion, or 11 percent of the gross individual income tax gap of $75.3 billion in 1981 was or will be closed. Since only $27.6 billion of the $75.3 billion could potentially have been recovered at economically rational program levels (yield not below cost), 30 percent of this $27.6 billion gap has been or will be closed under current funding levels.

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Lawsky, Ellen and Nevius, Anna

"Clustering of IRS Districts." July 1985. Statistical Methods Group PM:PFR:R

IRS Districts Can Be Clustered On The Basis Of Their Characteristics

Most Service research projects are designed to produce results that are representative of the entire country. The study found that we can group IRS districts into 8 to 10 clusters and then sample 1 or 2 districts from each cluster, thereby enabling us to save resources. Statistical techniques were used to form clusters of districts according to sets of characteristics. However, the clusters produced do not remain stable over time; they should be updated at least every other year.

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Lucas, Janet

"1984 Taxpayer Attitudes Study." December 1984. Taxpayer Compliance Measurement Group PM:PFR:R

Results From A Nationwide Taxpayer Opinion Survey Prove Instrumental To The Service In Assessing Performance

The 1984 Taxpayer Attitudes Study, conducted by Yankelovich, Skelly and White, Inc., was sponsored by the Service to (1) measure taxpayers' perceptions of and behavior toward the Service and its administration of the tax system and (2) define those factors affecting voluntary compliance. The survey results provide extensive taxpayer attitudinal and behavioral information. In several instances taxpayers perceptions are incorrect, and a number of functional areas within the Service have taken steps to educate the public to correct these misperceptions. In other instances, where taxpayers correctly perceive that improvement is necessary, actions have been taken to improve performance and inform the public of these efforts.

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McCrohan, Kevin

"Tipping for Services Other Than Those In Restaurants and Other Eating Places: 1982-84." January 1985. Compliance Estimates Group PM:PFR:R

Non-Restaurant Tips Averaged Between $3.5 and $3.9 Billion In 1982, 1983 And 1984, Respectively

This study, which was conducted by the Survey Research Laboratories of the University of Illinois and the NPD Corporation, estimated the amount of tips received by non-restaurant sector employees. Based on a panel of 6,400 households, it is estimated that non-restaurant tips averaged approximately $2.7 billion per year during 1982, 1983 and 1984. The $2.7 billion estimate estimate understates total tips because of the usual understatement of expenditures in bars. When an adustment is made for this, and other areas where comparisons

are possible, non-restaurant tips are estimated to have averaged between &3.5 billion and $3.9 billion each year for the 1982-1984 interval. This compares to approximately $6.5 billion each year in tips for restaurant employees during this period.

Effective tipping rates in barber and beauty shops, bar and drinking places and taxis were 9.5 percent, 15.3 percent and 17.9 percent, respectively. Approximately 80 percent of non-restaurant tips occur in these three categories.

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Roberts, Charles

"Comparison of Nonfiling Rates for Package 3 (Schedule C Filers) and Postcard Paid-Preparer Returns." August 1985. Statistical Methods Group PM:PFR:R

Tax Package Printing And Mailing Costs Can Be Reduced By Using Postcards

A controlled study was performed in 1985 to test the potential use of postcards as a substitute for the tax Package 3 (self-employed) mailing. To save the cost of printing and mailing this package to taxpayers who do not need them, postcards could be mailed to taxpayers who could return the postcard and request the package if needed. This study was conducted to determine whether failure to receive the tax package would increase nonfilings.

For the study, the 7.2 million self-employed taxpayers who used paid preparers in TY 83 were randomly divided into two groups (10 percent received a postcard and 90 percent received Package 3). Of the 10 service centers, only 2 had statistically significant differences between postcard and Package 3 TY 84 nonfiling rates. It appears that the use of the postcards will not significantly increase the nonfiling rate.

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Utter, Kenneth and Musselman, Bryan

"New York County Level Projections." July 1985. Research Division, Projections and Forecasting Group PM:PFR:R

New York County Level Projections Were Made Through 2000 Based On Historical Trends And Expected Population changes

At the request of the North Atlantic Region, projections of demographic and tax return statistics for counties in New York State were developed. Projections were made through 2000 based on trends and expected population changes. Projections were also made for Taxpayer Delinquent Accounts and Investigations at the county level.

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White, Patricia

"1985 Conference on Tax Administration Research." January 1985. Taxpayer Compliance Measurement Group PM:PFR:R

1985 Conference On Tax Administration Research Summary And Proceedings Are Now Available

The IRS held its second invitational conference on Tax Administration on January 9-11, 1985. One purpose of this conference was to encourage academic and private foundation researchers to apply their expertise to the study of tax administration. A second purpose was to examine tax compliance from a social and behavioral and behavioral perspective to complement the economic analysis of tax compliance.

Twenty-five researchers with diverse backgrounds participated, along with representatives from various IRS functions. The conference was structured around three topics: (1) identification of factors that affect voluntary compliance; (2) appeals within our social structure that can enhance voluntary compliance; and, (3) how the appeal can best be disseminated--relative merits of various approaches. Copies of the Summary and Proceedings are available.

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Collection

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Friedman, Joel

"Using Immigration and Naturalization Service (INS) Data as Leads to Business Tax Noncompliance." March 1985. Operations Research Section OP:C:E

INS Data Has Limited Use As Leads To Business Tax Noncompliance

Data was secured from INS on businesses with history of employing illegal aliens. These leads were followed up to determine if the firms were complying with business tax filing requirements. The results showed that the firms were generally compliant in filing; however, they have higher potential for improperly designating employees as independent contractors.

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Hunter, Mary

"Collection of Tax Shelter Assessments." March 1985. Operations Research Section OP:C:E

Tax Shelter Cases, Once Assessed, Have A High Probability Of Being Collected

A study was conducted tracing the extent of collection of assessments attributable to incorrectly reported tax shelters. The results showed that once the assessment is made the probability of collection is very high--generally higher than assessments attributable to other issues.

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Quinn, Carolyn

"Using a Recorded Message Instead of a Written Notice to Individuals and Businesses Delinquent in Tax Payment." May 1985. Operations Research Section OP:C:E

Recorded Message More Effective On Business Delinquents Than Individual Delinquents

A test was conducted substituting a recorded message making demand for payment of delinquent taxes for one of the written notices now used. For delinquent individual income tax cases, the recorded message was not more effective. For business delinquents, the recorded message was able to accelerate collection slightly.

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Quinn, Carolyn and Perng, Shien

"Varying Processing Routines for Delinquent Balance Due Income Accounts." January 1985. Operations Research Section OP:C:E and Statistical Methods Group PM:PFR:R

Varying The Method Can Accelerate Revenue Collection

Balance Due Income Tax Delinquencies were subject to six different methods during the written notice phase of processing. The methods included the use of telephone calls, offers of installment offers of installment agreement and changing the time frame for mailing notices. Using DIF, a scoring method was developed to match individual taxpayer characteristics and history to the method with the highest probability of securing payment or eliminating further processing.

Matching the processing routine to individual characteristics can result in accelerated collection of over $20 million.

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Bennett, Charles

"Foreign Tax Credit Study." September 1985. Operations Research Section OP:EX:P:O

Results Indicate It Is More Cost Effective To Computer Process Adjustments To Form 1116 Than To Use Manual Review By Tax Examiners

This study was conducted to determine the feasibility and effectiveness of service center correction of errors made to foreign tax credits on individual returns claiming a foreign tax credit of $25,000 or less. An additional objective was to assess the magnitude of examination potential in the foreign tax credit area.

The study revealed a significant number of returns with incorrectly prepared Forms 1116, Computation of Foreign Tax Credit, especially in the area of determining foreign source taxable income; indicating unclear instructions to the taxpayers and/or lack of compliance.

Results also indicate that the use of tax examiners in the service centers is feasible but not cost effective when compared to alternative automated programs such as DIF. Since most adjustments were made as a result of math errors on Form 1116, computer processing of the form with subsequent issuance of math error notices would be more efficient than manual computations/adjustments.

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Knowles, Becky

"Time Required for Quality Examinations." June 1985. Operations Research Section OP:EX:P:O

There Is No Apparent Direct Relationship Between Time Expended On An Audit And The Quality Of That Audit

This project was undertaken to determine the time needed by Tax Auditors to perform quality examinations of nonbusiness returns, using the Statement of Purpose and Auditing Standards in IRM 4015 and program audit aids developed by the National Office.

Study results show that there is no direct relationship between time expended on an audit and the quality of that audit. Fifty-four percent of percent of the total Study cases were determined to have had quality audits. Excluding 11 factors except time, the average quality return took 3.1 hours to complete, while the average non-quality case took 3.5 hours. As a result, it was recom-

mended that Examination work plans not be adjusted to increase examination time, since a direct relationship between quality and time was not established.

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Solomon, Mike

"Questionable Form W-4 Program Review." July 1985. Operations Research Section OP:EX:P:O

Both Short-Term And Long-Term Improvements Are Needed To Solve Operational Problems With W-4 Compliance

This study provides a comprehensive review of the current W-4 programs. Both short-term and long-term recommendations are made to improve operational effectiveness.

One major recommendation calls for redesign of Form W-4. The redesigned form should have an OCR scan capability to facilitate computer input. It would also include a checksheet filed with the Service showing the withholding computation and narrative explaining the reason for a change in the withholding (possibly, similar to the 1040-ES). Existing computer screening programs could be revised to utilize the additional information on the redesigned form to identify questionable Forms W-4 and provide a "W-4 Inventory" of cases ranked by potential.

Consideration is still being given to longer-recommendations addressing W-4 noncompliance, among them: setting specific W-4 filing thresholds by income level or other filing characteristic and instituting penalties for employer noncompliance with W-4 filing requirements.

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Human Resources

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Blucher, Richard

"Use of Portable Computers by Revenue Agents: A Report of the Findings from the Worcester/Springfield Test." February 1985. Human Resources Technology Staff PM:HR:HRT

Comprehensive Analysis Of Use Of PC's By Revenue Agents Completed

This report presents the findings from a test of the use of portable computers by Revenue Agents (RA's) in the Worcester/Springfield Post of Duty in the Boston District. An explanation of the methodology used to collect the information and a summary of the findings are presented. Recommendations for future plans are also offered.

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Green, Jeff

"A Guidebook: How to Introduce Ergonomics in IRS Automation Projects." Document 7010. March 1985. Human Resources Technology Staff PM:HR:HRT

ADP Office Systems Should Include Ergonomic Principles In Planning

This guidebook explains ergonomic principles and issues to be considered in the process of introducing a new ADP system into an IRS office. Ergonomics (or human factors engineering) is the design of work tasks to minimize human stress. The computer workstation and the worker's environoment must be shaped by the capabilites, limitations and needs of the people to whom they are provided.

Areas covered include ADP hardware, ADP software (the user-system interface), office furniture for Video Display Terminal workstations and design of illumination systems. The information may be used as a reference for specifying and purchasing systems and ADP furniture; specifying the design of workplace and and illumination systems for new offices that are remodeled to accommodate new ADP systems; and, as an aid both to understanding some important work environment problems and promoting communication of solutions.

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SECTION V

Economic, Demographic and Tax Return Statistics

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Taxpayers filed more than 180 million returns with IRS in 1985. This is double the level of 1956 when 90 million were filed and 40 percent more than the 127 million filed in 1975. Total return filings have increased in all except two years and the growth rates have been uneven. Growth has ranged from 6.5 percent between 1972 and 1973 to -1.8 percent between 1970 and 1971. Growth rates of return filings are somewhat related to business cycles, which are difficult to predict. They are also related to economic and demographic trends that are more predictable. The projections have been widely used throughout the Service as the basis of budget requests and workload planning. Thus, considerable interest has developed in the accuracy of these projections.

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Accuracy of Projections

The accuracy of the following types of projections has been analyzed: population, personal income in current and constant dollars, employment, total returns, and individual returns. Calculations for each of these types were made at the national and subnational levels for the long and short ranges, respectively. Long-range projections are those that have appeared in previous updates of this document and have projection horizons varying from 3 to 10 years. Short-range projections have been analyzed for a two-year horizon. Accuracy level calculations for all of these categories are presented in detail at the end of this section.

The results indicate that accuracy is generally good, especially for short time horizons. The accuracy of long-range projections (with an average horizon of 6.8 years) varied from 1.7 percent (mean absolute percentage error) for population to 7.7 percent for total returns. For short-range projections, the accuracy varied from 0.2 percent for population and 1.1 percent for total returns to 4.0 percent for current dollar personal income. At the district level, short-range projections for individual returns averaged 3.4 percent, total returns averaged 2.3 percent, and employment averaged 5.0 percent.

The analysis indicates that the projections are relatively accurate. We attribute this, in part, to continuing efforts to identify and track new trends, to keep abreast of previously identified trends, and to refine models in light of new information.

Table E-1. Employment, Income and Population—Actual: 1977, 1984 and Projected: 1985, 1992—United States and IRS Regions

	United States		North Atlantic		Mid-Atlantic		Southeast		Central		Midwest		Southwest		Western	
	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)
Civilian Employment (000)																
Actual																
1977	92,108		13,085		13,033		15,205		12,790		13,624		10,843		13,528	
1984	105,107	2.0	14,843	1.9	14,478	1.6	17,779	2.4	12,814	——	14,286	0.7	14,122	4.3	16,785	3.4
Projected																
1985	107,518	2.3	15,059	1.5	14,865	2.7	18,304	3.0	12,996	1.4	14,559	1.9	14,502	2.7	17,233	2.7
1992	118,858	1.5	16,477	1.3	16,331	1.4	20,606	1.8	13,699	0.8	15,625	1.0	16,592	2.1	19,528	1.9
Personal Income (millions of current $)																
Actual																
1977	1,540,406		224,154		220,453		232,933		215,318		227,943		175,855		243,750	
1984	3,012,100	13.6	429,657	13.1	417,469	12.8	489,506	15.7	368,583	10.2	412,489	11.6	392,368	17.6	502,028	15.1
Projected																
1985	3,210,072	6.6	457,496	6.5	443,540	6.2	525,479	7.3	387,025	5.0	435,339	5.5	421,135	7.3	540,058	7.6
1992	5,491,442	10.2	783,805	10.2	740,534	9.6	919,673	10.7	613,683	8.4	712,945	9.1	750,411	11.2	970,391	11.4
Personal Income (millions of constant 1972 $)																
Actual																
1977	1,105,819		160,893		158,262		167,269		154,582		163,637		126,235		174,941	
1984	1,366,651	3.4	194,147	3.0	187,469	2.6	221,332	4.6	169,487	1.4	187,167	2.1	177,619	5.8	229,430	4.4
Projected																
1985	1,412,262	3.3	201,214	3.6	191,640	2.2	228,994	3.5	173,235	2.2	192,664	2.9	185,008	4.2	239,507	4.4
1992	1,737,798	3.3	248,533	3.4	229,789	2.8	287,105	3.6	198,642	2.1	226,833	2.5	236,429	4.0	310,467	4.2
Per Capita Personal Income (current $)																
Actual																
1977	6,994		7,428		7,356		5,866		6,972		7,238		6,633		7,737	
1984	12,725	11.7	14,198	13.0	13,242	11.4	11,045	12.6	11,930	10.2	12,895	11.2	12,402	12.4	13,918	11.4
Projected																
1985	13,436	5.6	14,998	5.6	13,957	5.4	11,659	5.6	12,534	5.1	13,599	5.5	13,143	6.0	14,742	5.9
1992	21,610	8.7	24,537	9.1	22,323	8.6	18,607	8.5	19,609	8.1	21,936	8.8	21,362	8.9	23,873	8.8
Per Capita Personal Income (constant 1972 $)																
Actual																
1977	5,020		5,331		5,281		4,212		5,005		5,196		4,761		5,552	
1984	5,773	2.1	6,415	2.9	5,946	1.8	4,994	2.7	5,486	1.4	5,851	1.8	5,614	2.6	6,360	2.1
Projected																
1985	5,911	2.4	6,596	2.8	6,030	1.4	5,081	1.7	5,610	2.3	6,018	2.9	5,773	2.8	6,538	2.8
1992	6,838	2.2	7,780	2.6	6,926	2.1	5,808	2.0	6,347	1.9	6,979	2.3	6,730	2.4	7,637	2.4
Population (000)																
Actual																
1977	220,239		30,175		29,967		39,707		30,882		31,492		26,512		31,504	
1984	236,692	1.1	30,260	——	31,525	0.7	44,319	1.7	30,894	——	31,988	0.2	31,636	2.8	36,070	2.1
Projected																
1985	238,909	0.9	30,502	0.8	31,777	0.8	45,067	1.7	30,877	-0.1	32,012	0.1	32,042	1.3	36,632	1.6
1992	254,113	0.9	31,943	0.7	33,173	0.6	49,426	1.4	31,295	0.2	32,500	0.2	35,128	1.4	40,648	1.6
Population Age 65 & Over (000)																
Actual																
1977	23,891		3,568		3,224		4,535		3,160		3,659		2,626		3,119	
1984	27,971	2.4	3,930	1.4	3,728	2.2	5,756	3.8	3,470	1.4	3,994	1.3	3,290	3.6	3,803	3.1
Projected																
1985	28,595	2.2	4,009	2.0	3,824	2.6	5,960	3.5	3,503	1.0	4,032	1.0	3,364	2.2	3,903	2.6
1992	32,669	2.0	4,512	1.8	4,415	2.2	7,266	3.1	3,783	1.1	4,264	0.8	3,818	1.9	4,611	2.6

Table E-2. Employment, Income and Population—Actual: 1977, 1984 and Projected: 1985, 1992—IRS North Atlantic Region and Districts

	North Atlantic		Albany		Augusta		Boston		Brooklyn		Buffalo		Burlington		Hartford		Manhattan		Portsmouth		Providence	
	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)
Civilian Employment (000)																						
Actual																						
1977	13,085		813		425		2,652		1,894		1,881		195		1,407		3,030		369		419	
1984	14,843	1.9	984	3.0	463	1.3	2,932	1.5	2,186	2.2	2,243	2.7	223	2.1	1,594	1.9	3,325	1.4	460	3.5	433	0.5
Projected																						
1985	15,059	1.5	1,003	1.9	477	3.0	2,991	2.0	2,207	1.0	2,272	1.3	232	4.0	1,634	2.5	3,317	-0.2	486	5.7	440	1.6
1992	16,477	1.3	1,145	2.0	520	1.3	3,302	1.5	2,429	1.4	2,529	1.6	269	2.3	1,827	1.7	3,396	0.3	584	2.9	476	1.2
Personal Income (millions of current $)																						
Actual																						
1977	224,154		13,924		6,399		42,077		53,681		31,127		2,842		25,360		36,583		5,721		6,440	
1984	429,657	13.1	26,806	13.2	12,353	13.3	84,061	14.3	101,282	12.7	55,942	11.4	5,780	14.8	51,739	14.9	66,667	11.7	12,813	17.7	12,214	12.8
Projected																						
1985	457,496	6.5	28,627	6.8	13,328	7.9	90,010	7.1	107,481	6.1	59,256	5.9	6,273	8.5	55,090	6.5	70,411	5.6	14,153	10.5	12,867	5.3
1992	783,805	10.2	50,626	11.0	24,141	11.6	156,273	10.5	181,897	9.9	99,025	9.6	11,494	11.9	95,674	10.5	115,238	9.1	27,567	13.5	21,870	10.0
Personal Income (millions of constant 1972 $)																						
Actual																						
1977	160,893		9,991		4,594		30,217		38,519		22,336		2,041		18,212		26,251		4,108		4,624	
1984	194,147	3.0	12,196	3.2	5,577	3.1	36,975	3.2	46,081	2.8	25,453	2.0	2,670	4.4	23,596	4.2	30,332	2.2	5,704	5.6	5,563	2.9
Projected																						
1985	201,214	3.6	12,633	3.6	5,848	4.9	38,639	4.5	47,429	2.9	26,149	2.7	2,772	3.8	24,809	5.1	31,072	2.4	6,036	5.8	5,827	4.7
1992	248,533	3.4	16,061	3.9	7,289	3.5	49,393	4.0	57,708	3.1	31,417	2.9	3,480	3.6	31,390	3.8	36,560	2.5	7,953	4.5	7,282	3.6
Per Capita Personal Income (current $)																						
Actual																						
1977	7,428		6,416		5,780		7,308		7,813		6,668		5,764		8,191		8,745		6,545		6,729	
1984	14,198	13.0	12,031	12.5	10,760	12.3	14,533	14.1	15,044	13.2	12,043	11.5	10,926	12.8	16,404	14.3	16,197	12.2	13,195	14.5	12,816	12.9
Projected																						
1985	14,998	5.6	12,678	5.4	11,529	7.1	15,436	6.2	15,942	6.0	12,594	4.6	11,791	7.9	17,302	5.5	16,962	4.7	14,324	8.6	13,473	5.1
1992	24,537	9.1	20,808	9.2	19,869	10.3	25,197	9.0	27,254	10.1	19,659	8.0	19,681	9.6	28,131	8.9	26,768	8.3	24,857	10.5	22,248	9.3
Per Capita Personal Income (constant 1972 $)																						
Actual																						
1977	5,331		4,604		4,149		5,248		5,606		4,784		4,139		5,882		6,275		4,700		4,831	
1984	6,415	2.9	5,473	2.7	4,858	2.4	6,392	3.1	6,845	3.2	5,479	2.1	5,047	3.1	7,481	3.9	7,369	2.5	5,874	3.6	5,837	3.0
Projected																						
1985	6,596	2.8	5,594	2.2	5,058	4.1	6,626	3.7	7,034	2.8	5,557	1.4	5,210	3.2	7,791	4.1	7,485	1.6	6,109	4.0	6,101	4.5
1992	7,780	2.6	6,601	2.6	5,999	2.7	7,964	2.9	8,646	3.3	6,237	1.7	5,958	2.1	9,229	2.6	8,492	1.9	7,171	2.5	7,407	3.1
Population (000)																						
Actual																						
1977	30,175		2,170		1,107		5,757		6,870		4,668		493		3,096		4,183		874		957	
1984	30,260	—	2,228	0.4	1,148	0.5	5,784	0.1	6,732	-0.3	4,645	-0.1	529	1.0	3,154	0.3	4,116	-0.2	971	1.6	953	-0.1
Projected																						
1985	30,502	0.8	2,258	1.3	1,156	0.7	5,831	0.8	6,742	0.1	4,705	1.3	532	0.6	3,184	1.0	4,151	0.9	988	1.8	955	0.2
1992	31,943	0.7	2,433	1.1	1,215	0.7	6,202	0.9	6,674	-0.1	5,037	1.0	584	1.4	3,401	1.0	4,305	0.5	1,109	1.7	983	0.4
Population Age 65 & Over (000)																						
Actual																						
1977	3,568		256		131		702		816		554		55		342		496		96		120	
1984	3,930	1.4	289	1.8	148	1.9	768	1.3	875	1.0	604	1.3	61	1.6	401	2.5	536	1.2	110	2.1	138	2.1
Projected																						
1985	4,009	2.0	296	2.4	150	1.4	782	1.8	888	1.5	619	2.5	62	1.6	413	3.0	546	1.9	112	1.8	141	2.2
1992	4,512	1.8	343	2.3	162	1.1	885	1.9	944	0.9	713	2.2	69	1.6	498	2.9	608	1.6	126	1.8	164	2.3

Table E-3. Employment, Income and Population—Actual: 1977, 1984 and Projected: 1985, 1992—IRS Mid-Atlantic Region and Districts

	Mid-Atlantic		Baltimore		Newark		Philadelphia		Pittsburgh		Richmond		Wilmington	
	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)
Civilian Employment (000)														
Actual														
1977	13,033		2,332		3,114		3,239		1,875		2,119		262	
1984	14,478	1.6	2,519	1.1	3,510	1.8	3,553	1.4	2,046	1.3	2,452	2.2	293	1.7
Projected														
1985	14,865	2.7	2,575	2.2	3,607	2.8	3,632	2.2	2,098	2.5	2,544	3.8	302	3.1
1992	16,331	1.4	2,867	1.6	3,971	1.4	3,868	0.9	2,282	1.3	2,894	2.0	331	1.4
Personal Income (millions of current $)														
Actual														
1977	220,453		37,809		59,098		51,948		31,168		35,952		4,478	
1984	417,469	12.8	71,704	12.8	116,318	13.8	90,028	10.5	57,121	11.9	73,825	15.0	8,473	12.7
Projected														
1985	443,540	6.2	76,899	7.2	124,324	6.9	94,687	5.2	59,563	4.3	78,975	7.0	9,092	7.3
1992	740,534	9.6	128,963	9.7	206,524	9.4	154,017	9.0	98,832	9.4	136,941	10.5	15,257	9.7
Personal Income (millions of constant 1972 $)														
Actual														
1977	158,262		27,150		42,439		37,276		22,364		25,817		3,216	
1984	187,469	2.6	32,063	2.6	52,059	3.2	40,961	1.4	25,989	2.3	32,599	3.8	3,798	2.6
Projected														
1985	191,640	2.2	32,887	2.6	53,302	2.4	41,784	2.0	26,284	1.1	33,482	2.7	3,901	2.7
1992	229,789	2.8	39,966	3.1	63,639	2.8	48,863	2.4	31,355	2.8	41,185	3.3	4,781	3.2
Per Capita Personal Income (current $)														
Actual														
1977	7,356		7,735		8,031		7,154		6,707		6,891		7,513	
1984	13,242	11.4	14,471	12.4	15,478	13.2	12,366	10.4	12,537	12.4	13,154	13.0	13,890	12.1
Projected														
1985	13,957	5.4	15,288	5.6	16,386	5.9	13,002	5.1	13,102	4.5	13,797	4.9	14,880	7.1
1992	22,323	8.6	24,351	8.5	25,906	8.3	20,516	8.3	21,443	9.1	22,281	8.8	23,617	8.4
Per Capita Personal Income (constant 1972 $)														
Actual														
1977	5,281		5,554		5,767		5,133		4,812		4,948		5,395	
1984	5,946	1.8	6,470	2.4	6,927	2.9	5,626	1.4	5,704	2.6	5,808	2.5	6,226	2.2
Projected														
1985	6,030	1.4	6,538	1.1	7,025	1.4	5,737	2.0	5,781	1.3	5,849	0.7	6,384	2.5
1992	6,926	2.1	7,546	2.2	7,982	1.9	6,508	1.9	6,802	2.5	6,701	2.1	7,400	2.3
Population (000)														
Actual														
1977	29,967		4,888		7,358		7,261		4,647		5,217		596	
1984	31,525	0.7	4,955	0.2	7,515	0.3	7,280	—	4,556	-0.3	5,612	1.1	610	0.3
Projected														
1985	31,777	0.8	5,030	1.5	7,587	1.0	7,282	—	4,546	-0.2	5,724	2.0	611	0.2
1992	33,173	0.6	5,296	0.8	7,972	0.7	7,507	0.4	4,609	0.2	6,146	1.1	646	0.8
Population Age 65 & Over (000)														
Actual														
1977	3,224		440		812		888		568		461		55	
1984	3,728	2.2	518	2.5	941	2.3	1,011	2.0	633	1.6	559	3.0	66	2.9
Projected														
1985	3,824	2.6	537	3.7	968	2.9	1,030	1.9	642	1.4	579	3.6	68	3.0
1992	4,415	2.2	637	2.7	1,128	2.4	1,175	2.0	721	1.8	672	2.3	82	2.9

Table E-4. Employment, Income and Population—Actual: 1977, 1984 and Projected: 1985, 1992—IRS Southeast Region and Districts

	Southeast		Atlanta		Birmingham		Columbia		Greensboro		Jackson		Jacksonville		Little Rock		Nashville		New Orleans	
	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)
Civilian Employment (000)																				
Actual																				
1977	15,205		2,114		1,393		1,186		2,382		840		3,221		763		1,809		1,497	
1984	17,779	2.4	2,581	3.2	1,446	0.5	1,320	1.6	2,668	1.7	863	0.4	4,446	5.4	829	1.2	1,936	1.0	1,690	1.8
Projected																				
1985	18,304	3.0	2,703	4.7	1,467	1.5	1,344	1.8	2,733	2.4	880	2.0	4,665	4.9	842	1.6	1,977	2.1	1,693	0.2
1992	20,606	1.8	3,049	1.8	1,604	1.3	1,496	1.6	3,057	1.7	937	0.9	5,446	2.4	932	1.5	2,129	1.1	1,956	2.2
Personal Income (millions of current $)																				
Actual																				
1977	232,933		31,144		21,141		16,311		32,870		12,252		58,168		11,972		25,249		23,826	
1984	489,506	15.7	66,940	16.4	40,196	12.9	33,163	14.8	65,846	14.3	23,004	12.5	138,484	19.7	23,053	13.2	49,968	14.0	48,852	15.0
Projected																				
1985	525,479	7.3	73,337	9.6	42,780	6.4	34,989	5.5	69,761	5.9	24,317	5.7	150,979	9.0	24,535	6.4	53,235	6.5	51,546	5.5
1992	919,673	10.7	129,205	10.9	69,908	9.1	58,567	9.6	119,366	10.2	39,311	8.8	280,806	12.3	42,056	10.2	88,174	9.4	92,280	11.3
Personal Income (millions of constant 1972 $)																				
Actual																				
1977	167,269		22,363		15,181		11,712		23,606		8,797		41,772		8,597		18,131		17,110	
1984	221,332	4.6	29,400	4.5	18,114	2.8	14,955	4.0	29,529	3.6	10,780	3.2	63,485	7.4	10,316	2.9	21,918	3.0	22,835	4.8
Projected																				
1985	228,994	3.5	30,229	2.8	18,666	3.0	15,425	3.1	30,335	2.7	11,148	3.4	66,337	4.5	10,745	4.2	22,478	2.6	23,631	3.5
1992	287,105	3.6	38,469	3.9	22,102	2.6	19,347	3.6	37,416	3.3	12,853	2.2	87,043	4.5	13,126	3.2	26,888	2.8	29,861	3.8
Per Capita Personal Income (current $)																				
Actual																				
1977	5,866		5,962		5,576		5,444		5,792		4,970		6,529		5,412		5,722		5,919	
1984	11,045	12.6	11,513	13.3	10,142	11.7	10,070	12.1	10,720	12.2	8,875	11.2	12,659	13.4	9,793	11.6	10,636	12.3	10,798	11.8
Projected																				
1985	11,659	5.6	12,392	7.6	10,803	6.5	10,554	4.8	11,142	3.9	9,295	4.7	13,376	5.7	10,278	5.0	11,174	5.1	11,306	4.7
1992	18,607	8.5	19,707	8.4	17,071	8.3	16,259	7.7	17,847	8.6	14,527	8.0	20,986	8.1	16,396	8.5	17,947	8.7	18,752	9.4
Per Capita Personal Income (constant 1972 $)																				
Actual																				
1977	4,212		4,281		4,004		3,909		4,159		3,568		4,689		3,886		4,109		4,250	
1984	4,994	2.7	5,056	2.6	4,570	2.0	4,541	2.3	4,807	2.2	4,158	2.4	5,803	3.4	4,382	1.8	4,665	1.9	5,047	2.7
Projected																				
1985	5,081	1.7	5,107	1.0	4,713	3.1	4,653	2.5	4,845	0.8	4,261	2.5	5,877	1.3	4,501	2.7	4,718	1.1	5,183	2.7
1992	5,808	2.0	5,867	2.1	5,397	2.1	5,371	2.2	5,594	2.2	4,749	1.6	6,505	1.5	5,117	2.0	5,472	2.3	6,068	2.4
Population (000)																				
Actual																				
1977	39,707		5,223		3,791		2,996		5,675		2,465		8,908		2,212		4,412		4,025	
1984	44,319	1.7	5,814	1.6	3,963	0.6	3,293	1.4	6,142	1.2	2,592	0.7	10,939	3.3	2,354	0.9	4,698	0.9	4,524	1.8
Projected																				
1985	45,067	1.7	5,918	1.8	3,960	-0.1	3,315	0.7	6,261	1.9	2,616	0.9	11,287	3.2	2,387	1.4	4,764	1.4	4,559	0.8
1992	49,426	1.4	6,556	1.5	4,095	0.5	3,602	1.2	6,688	1.0	2,706	0.5	13,380	2.6	2,565	1.1	4,913	0.4	4,921	1.1
Population Age 65 & Over (000)																				
Actual																				
1977	4,535		468		404		256		542		268		1,457		289		478		373	
1984	5,756	3.8	585	3.6	481	2.7	331	4.2	688	3.8	315	2.5	2,008	5.4	334	2.2	559	2.4	455	3.1
Projected																				
1985	5,960	3.5	603	3.1	489	1.7	339	2.4	717	4.2	322	2.2	2,104	4.8	342	2.4	575	2.9	469	3.1
1992	7,266	3.1	736	3.2	558	2.0	422	3.5	882	3.3	354	1.4	2,755	4.4	381	1.6	639	1.6	539	2.1

Table E-5. Employment, Income and Population—Actual: 1977, 1984 and Projected: 1985, 1992—IES Central Region and Districts

	Central		Cincinnati		Cleveland		Detroit		Indianapolis		Louisville		Parkersburg	
	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)
Civilian Employment (000)														
Actual														
1977	12,790		1,993		2,766		3,779		2,321		1,260		671	
1984	12,814	——	2,233	1.7	2,938	0.9	3,518	-1.0	2,211	-0.7	1,280	0.2	634	-0.8
Projected														
1985	12,996	1.4	2,253	0.9	2,951	0.4	3,573	1.6	2,272	2.8	1,315	2.7	632	-0.3
1992	13,699	0.8	2,260	——	3,043	0.4	3,792	0.9	2,444	1.1	1,429	1.2	731	2.2
Personal Income (millions of current $)														
Actual														
1977	215,318		30,832		45,865		69,548		37,110		20,800		11,163	
1984	368,583	10.2	54,492	11.0	77,206	9.8	114,929	9.3	63,600	10.2	39,004	12.5	19,352	10.5
Projected														
1985	387,025	5.0	57,189	4.9	80,898	4.8	120,729	5.0	66,597	4.7	41,441	6.2	20,171	4.2
1992	613,683	8.4	91,026	8.5	127,325	8.2	187,653	7.9	106,594	8.6	67,852	9.1	33,233	9.3
Personal Income (millions of constant 1972 $)														
Actual														
1977	154,582		22,123		32,911		49,944		26,649		14,937		8,018	
1984	169,487	1.4	24,793	1.7	35,127	1.0	53,858	1.1	29,527	1.5	17,349	2.3	8,833	1.5
Projected														
1985	173,235	2.2	25,237	1.8	35,698	1.6	54,796	1.7	30,655	3.8	17,841	2.8	9,008	2.0
1992	198,642	2.1	28,878	2.1	40,395	1.9	61,784	1.8	35,333	2.2	21,291	2.8	10,961	3.1
Per Capita Personal Income (current $)														
Actual														
1977	6,972		6,806		7,321		7,578		6,849		5,805		5,844	
1984	11,930	10.2	11,871	10.6	12,598	10.3	12,717	9.7	11,639	10.0	10,501	11.6	9,868	9.8
Projected														
1985	12,534	5.1	12,432	4.7	13,248	5.2	13,357	5.0	12,192	4.8	11,158	6.3	10,307	4.4
1992	19,609	8.1	19,272	7.9	21,111	8.5	20,521	7.7	19,275	8.3	17,610	8.3	16,500	8.6
Per Capita Personal Income (constant 1972 $)														
Actual														
1977	5,005		4,883		5,253		5,442		4,918		4,168		4,197	
1984	5,486	1.4	5,401	1.5	5,732	1.3	5,959	1.4	5,403	1.4	4,671	1.7	4,504	1.0
Projected														
1985	5,610	2.3	5,486	1.6	5,846	2.0	6,062	1.7	5,612	3.9	4,803	2.8	4,602	2.2
1992	6,347	1.9	6,114	1.6	6,697	2.1	6,756	1.6	6,389	2.0	5,525	2.1	5,442	2.6
Population (000)														
Actual														
1977	30,882		4,530		6,264		9,177		5,418		3,583		1,910	
1984	30,894	---	4,590	0.2	6,128	-0.3	9,037	-0.2	5,464	0.1	3,714	0.5	1,961	0.4
Projected														
1985	30,877	-0.1	4,600	0.2	6,106	-0.4	9,038	——	5,462	——	3,714	——	1,957	-0.2
1992	31,295	0.2	4,723	0.4	6,031	-0.2	9,144	0.2	5,530	0.2	3,853	0.5	2,014	0.4
Population Age 65 & Over (000)														
Actual														
1977	3,160		470		650		867		559		389		225	
1984	3,470	1.4	528	1.8	706	1.2	948	1.3	612	1.4	427	1.4	249	1.5
Projected														
1985	3,503	1.0	537	1.7	711	0.7	960	1.3	617	0.8	429	0.5	249	——
1992	3,783	1.1	594	1.5	761	1.0	1,052	1.4	660	1.0	451	0.7	265	0.9

Table E-6. Employment, Income and Population—Actual: 1977, 1984 and Projected: 1985, 1992—BEA Midwest Region and Districts

	Midwest		Aberdeen		Chicago		Des Moines		Fargo		Helena		Milwaukee		Omaha		St. Louis		St. Paul		Springfield	
	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)
Civilian Employment (000)																						
Actual																						
1977	13,624		248		4,010		1,184		242		289		1,974		651		2,043		1,753		1,230	
1984	14,286	0.7	257	0.5	4,278	1.0	1,111	-0.9	270	1.7	293	0.2	2,050	0.6	671	0.4	2,096	0.4	1,946	1.6	1,314	1.0
Projected																						
1985	14,559	1.9	260	1.2	4,298	0.5	1,128	1.5	272	0.7	300	2.4	2,114	3.1	690	2.8	2,141	2.1	2,035	4.6	1,321	0.5
1992	15,625	1.0	287	1.5	4,456	0.5	1,232	1.3	293	1.1	337	1.8	2,325	1.4	737	1.0	2,292	1.0	2,276	1.7	1,390	0.7
Personal Income (millions of current $)																						
Actual																						
1977	227,943		4,036		69,802		20,391		3,997		4,770		31,892		10,527		32,069		28,669		21,790	
1984	412,489	11.6	7,708	13.0	120,032	10.3	35,109	10.3	8,814	17.2	8,789	12.0	58,982	12.1	19,992	12.8	60,405	12.6	55,381	13.3	37,277	10.2
Projected																						
1985	435,339	5.5	8,226	6.7	125,712	4.7	36,135	2.9	9,445	7.2	8,917	1.5	62,371	5.7	20,828	4.2	64,482	6.7	59,944	8.2	39,279	5.4
1992	712,945	9.1	14,296	10.5	193,847	7.7	58,184	8.7	16,373	10.5	15,342	10.3	105,977	10.0	33,799	8.9	106,638	9.3	105,288	10.8	63,201	8.7
Personal Income (millions of constant 1972 $)																						
Actual																						
1977	163,637		2,898		50,087		14,642		2,870		3,425		22,902		7,560		23,030		20,588		15,635	
1984	187,167	2.1	3,550	3.2	54,612	1.3	16,677	2.0	3,911	5.2	4,223	3.3	26,728	2.4	9,054	2.8	26,896	2.4	24,556	2.8	16,960	1.2
Projected																						
1985	192,664	2.9	3,732	5.1	55,475	1.6	17,552	5.2	4,009	2.5	4,389	3.9	27,571	3.2	9,550	5.5	27,506	2.3	25,547	4.0	17,333	2.2
1992	226,833	2.5	4,977	4.8	61,499	1.6	20,677	2.5	5,106	3.9	5,507	3.6	32,145	2.4	12,264	4.1	33,143	2.9	31,464	3.3	20,051	2.2
Per Capita Personal Income (current $)																						
Actual																						
1977	7,238		5,840		8,414		6,983		6,149		6,170		6,898		6,761		6,601		7,187		6,948	
1984	12,895	11.2	10,995	12.6	14,440	10.2	12,190	10.7	12,961	15.8	10,705	10.5	12,404	11.4	12,534	12.2	12,156	12.0	13,354	12.3	11,917	10.2
Projected																						
1985	13,599	5.5	11,684	6.3	15,140	4.8	12,643	3.7	13,828	6.7	10,821	1.1	13,083	5.5	13,050	4.1	13,013	7.1	14,292	7.0	12,557	5.4
1992	21,936	8.8	20,422	10.7	23,148	7.6	20,415	8.8	23,902	10.4	17,964	9.4	21,418	9.1	21,351	9.1	21,357	9.2	24,299	10.0	19,874	8.3
Per Capita Personal Income (constant 1972 $)																						
Actual																						
1977	5,196		4,193		6,038		5,014		4,415		4,430		4,953		4,855		4,740		5,161		4,985	
1984	5,851	1.8	5,064	3.0	6,570	1.3	5,790	2.2	5,751	4.3	5,143	2.3	5,621	1.9	5,676	2.4	5,412	2.0	5,921	2.1	5,421	1.2
Projected																						
1985	6,018	2.9	5,301	4.7	6,681	1.7	6,141	6.1	5,869	2.1	5,326	3.6	5,783	2.9	5,983	5.4	5,551	2.6	6,091	2.9	5,541	2.2
1992	6,979	2.3	7,109	4.9	7,344	1.4	7,255	2.6	7,454	3.9	6,448	3.0	6,496	1.8	7,747	4.2	6,637	2.8	7,261	2.7	6,305	2.0
Population (000)																						
Actual																						
1977	31,492		691		8,295		2,920		650		773		4,623		1,557		4,858		3,989		3,136	
1984	31,988	0.2	701	0.2	8,312	—	2,880	-0.2	680	0.7	821	0.9	4,755	0.4	1,595	0.3	4,969	0.3	4,147	0.6	3,128	—
Projected																						
1985	32,012	0.1	704	0.4	8,303	-0.1	2,858	-0.8	683	0.4	824	0.4	4,767	0.3	1,596	0.1	4,955	-0.3	4,194	1.1	3,128	—
1992	32,500	0.2	700	-0.1	8,374	0.1	2,850	—	685	—	854	0.5	4,948	0.5	1,583	-0.1	4,993	0.1	4,333	0.5	3,180	0.2
Population Age 65 & Over (000)																						
Actual																						
1977	3,659		88		883		375		76		79		538		201		624		461		334	
1984	3,994	1.3	95	1.1	963	1.3	395	0.8	88	2.3	91	2.2	597	1.6	214	0.9	682	1.3	506	1.4	363	1.2
Projected																						
1985	4,032	1.0	97	2.1	973	1.0	394	-0.3	90	2.3	92	1.1	604	1.2	215	0.5	685	0.4	516	2.0	366	0.8
1992	4,264	0.8	99	0.3	1,037	0.9	400	0.2	97	1.1	97	0.8	660	1.3	216	0.1	716	0.6	549	0.9	393	1.1

Table E-7. Employment, Income and Population—Actual: 1977, 1984 and Projected: 1985, 1992—IRS Southwest Region and Districts

	Southwest		Albuquerque		Austin		Cheyenne		Dallas		Denver		Houston		Oklahoma City		Phoenix		Salt Lake City		Wichita	
	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)
Civilian Employment (000)																						
Actual																						
1977	10,843		456		1,652		187		2,405		1,162		1,534		1,066		888		536		957	
1984	14,122	4.3	533	2.4	2,167	4.5	218	2.4	3,318	5.4	1,462	3.7	2,283	7.0	1,268	2.7	1,225	5.4	641	2.8	1,007	0.7
Projected																						
1985	14,502	2.7	553	3.8	2,188	1.0	218	—	3,378	1.8	1,511	3.4	2,351	3.0	1,288	1.6	1,304	6.4	674	5.1	1,037	3.0
1992	16,592	2.1	645	2.4	2,391	1.3	279	4.0	3,795	1.8	1,790	2.6	2,723	2.3	1,436	1.6	1,561	2.8	798	2.6	1,174	1.9
Personal Income (millions of current $)																						
Actual																						
1977	175,855		7,065		23,971		3,112		38,923		19,204		25,999		18,140		15,118		7,690		16,633	
1984	392,368	17.6	14,908	15.9	52,012	16.7	6,736	16.6	86,086	17.3	43,914	18.4	63,676	20.7	39,751	17.0	35,515	19.3	16,159	15.7	33,611	14.6
Projected																						
1985	421,135	7.3	16,154	8.4	55,143	6.0	7,745	15.0	91,512	6.3	47,295	7.7	68,653	7.8	41,818	5.2	39,505	11.2	17,546	8.6	35,764	6.4
1992	750,411	11.2	28,961	11.3	92,342	9.6	15,563	14.4	156,130	10.1	87,023	12.0	129,309	12.6	71,477	10.1	76,223	13.3	33,707	13.2	59,676	9.6
Personal Income (millions of constant 1972 $)																						
Actual																						
1977	126,235		5,074		17,201		2,234		27,929		13,791		18,656		13,027		10,856		5,522		11,945	
1984	177,619	5.8	6,732	4.7	23,664	5.4	3,114	5.6	39,168	5.7	19,651	6.1	28,972	7.9	18,095	5.6	16,072	6.9	7,395	4.8	14,756	3.4
Projected																						
1985	185,008	4.2	7,036	4.5	24,334	2.8	3,274	5.1	40,384	3.1	20,619	4.9	30,295	4.6	19,024	5.1	16,827	4.7	7,717	4.4	15,498	5.0
1992	236,429	4.0	9,274	4.5	29,296	2.9	4,522	5.4	49,533	3.2	26,751	4.2	41,024	5.1	24,621	4.2	22,163	4.5	9,920	4.1	19,325	3.5
Per Capita Personal Income (current $)																						
Actual																						
1977	6,633		5,753		5,440		7,535		7,038		7,107		7,914		6,316		6,216		5,821		7,160	
1984	12,402	12.4	10,454	11.7	10,008	12.0	13,003	10.4	13,229	12.6	13,667	13.2	14,825	12.5	11,862	12.5	11,671	12.5	9,775	9.7	13,814	13.3
Projected																						
1985	13,143	6.0	11,125	6.4	10,503	4.9	14,922	14.8	13,992	5.8	14,436	5.6	15,645	5.5	12,416	4.7	12,617	8.1	10,425	6.6	14,687	6.3
1992	21,362	8.9	17,800	8.6	16,355	8.0	26,467	11.1	23,096	9.3	23,551	9.0	25,314	8.8	20,140	8.9	20,473	8.9	17,546	9.8	23,765	8.8
Per Capita Personal Income (constant 1972 $)																						
Actual																						
1977	4,761		4,131		3,903		5,409		5,050		5,103		5,679		4,535		4,463		4,180		5,142	
1984	5,614	2.6	4,720	2.0	4,553	2.4	6,011	1.6	6,019	2.7	6,116	2.8	6,745	2.7	5,399	2.7	5,281	2.6	4,473	1.0	6,064	2.6
Projected																						
1985	5,773	2.8	4,845	2.6	4,635	1.8	6,308	4.9	6,174	2.6	6,293	2.9	6,904	2.4	5,648	4.6	5,374	1.8	4,585	2.5	6,364	4.9
1992	6,730	2.4	5,700	2.5	5,188	1.7	7,690	3.1	7,327	2.7	7,239	2.1	8,031	2.3	6,937	3.3	5,952	1.5	5,163	1.8	7,696	3.0
Population (000)																						
Actual																						
1977	26,512		1,228		4,406		413		5,530		2,702		3,285		2,872		2,432		1,321		2,323	
1984	31,636	2.8	1,426	2.3	5,197	2.6	518	3.6	6,507	2.5	3,213	2.7	4,295	4.4	3,351	2.4	3,043	3.6	1,653	3.6	2,433	0.7
Projected																						
1985	32,042	1.3	1,452	1.8	5,250	1.0	519	0.2	6,540	0.5	3,276	2.0	4,388	2.2	3,368	0.5	3,131	2.9	1,683	1.8	2,435	0.1
1992	35,128	1.4	1,627	1.7	5,646	1.1	588	1.9	6,760	0.5	3,695	1.8	5,108	2.3	3,549	0.8	3,723	2.7	1,921	2.0	2,511	0.4
Population Age 65 & Over (000)																						
Actual																						
1977	2,626		103		417		33		525		229		311		354		258		100		296	
1984	3,290	3.6	139	5.0	517	3.4	38	2.2	646	3.3	273	2.7	428	5.4	425	2.9	372	6.3	124	3.4	328	1.5
Projected																						
1985	3,364	2.2	145	4.3	527	1.9	38	—	657	1.7	278	1.8	439	2.6	432	1.6	390	4.8	127	2.4	331	0.9
1992	3,818	1.9	190	4.4	582	1.5	37	-0.4	699	0.9	303	1.3	526	2.8	457	0.8	529	5.1	143	1.8	352	0.9

Table E-8. Employment, Income and Population—Actual: 1977, 1984 and Projected: 1985, 1992—IRS Western Region and Districts

	Western		Anchorage		Boise		Honolulu		Laguna Niguel		Las Vegas		Los Angeles		Portland		Sacramento		San Francisco		San Jose		Seattle	
	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)
Civilian Employment (000)																								
Actual																								
1977	13,528		179		337		394		1,979		338		3,510		1,027		1,282		1,285		1,697		1,500	
1984	16,785	3.4	233	4.3	349	0.5	435	1.5	3,338	9.8	450	4.7	3,560	0.2	1,066	0.5	1,704	4.7	1,520	2.6	2,380	5.7	1,750	2.4
Projected																								
1985	17,233	2.7	241	3.4	353	1.1	445	2.3	3,449	3.3	468	4.0	3,621	1.7	1,088	2.1	1,760	3.3	1,542	1.4	2,480	4.2	1,786	2.1
1992	19,528	1.9	214	-1.6	386	1.3	510	2.1	3,993	2.3	600	4.0	3,945	1.3	1,214	1.7	2,064	2.5	1,692	1.4	2,902	2.4	2,008	1.8
Personal Income (millions of current $)																								
Actual																								
1977	243,750		4,374		5,399		7,000		43,101		5,315		53,033		17,134		26,882		21,855		31,521		28,136	
1984	502,028	15.1	8,700	14.1	10,348	13.1	13,386	13.0	74,315	10.3	12,116	18.3	114,792	16.6	31,259	11.8	60,457	17.8	46,134	15.9	73,360	19.0	57,161	14.7
Projected																								
1985	540,058	7.6	9,430	8.4	10,715	3.5	13,998	4.6	80,318	8.1	12,944	6.8	124,141	8.1	32,912	5.3	65,454	8.3	49,619	7.6	79,251	8.0	61,276	7.2
1992	970,391	11.4	12,000	3.9	18,799	10.8	24,404	10.6	146,597	11.8	25,345	13.7	227,526	11.9	59,438	9.8	120,943	12.1	87,530	10.9	144,205	11.7	107,604	10.8
Personal Income (millions of constant 1972 $)																								
Actual																								
1977	174,941		3,141		3,876		5,028		30,927		3,817		38,055		12,304		19,288		15,682		22,618		20,205	
1984	229,430	4.4	4,151	4.6	4,838	3.5	6,145	3.2	33,812	1.3	5,747	7.2	52,229	5.3	14,459	2.5	27,507	6.1	20,990	4.8	33,377	6.8	26,175	4.2
Projected																								
1985	239,507	4.4	4,352	4.8	4,992	3.2	6,357	3.4	35,444	4.8	6,057	5.4	54,783	4.9	14,937	3.3	28,885	5.0	21,896	4.3	34,974	4.8	26,830	2.5
1992	310,467	4.2	5,559	4.0	6,451	4.2	7,773	3.2	46,509	4.5	8,148	4.9	72,184	4.5	18,127	3.1	38,371	4.7	27,770	3.8	45,750	4.4	33,825	3.7
Per Capita Personal Income (current $)																								
Actual																								
1977	7,737		11,017		6,086		7,625		7,122		7,827		8,566		7,010		7,645		9,237		7,373		7,443	
1984	13,918	11.4	17,540	8.5	10,431	10.2	12,821	9.7	10,260	6.3	13,314	10.0	17,039	14.1	11,725	9.6	14,473	12.8	18,579	14.4	14,669	14.1	13,228	11.1
Projected																								
1985	14,742	5.9	18,454	5.2	10,758	3.1	13,243	3.3	10,795	5.2	13,933	4.6	18,272	7.2	12,185	3.9	15,404	6.4	19,839	6.8	15,502	5.7	14,112	6.7
1992	23,873	8.8	24,439	4.6	18,041	9.7	20,875	8.2	16,692	7.8	22,271	8.5	32,388	11.0	19,116	8.1	24,300	8.3	34,460	10.5	24,445	8.2	22,967	9.0
Per Capita Personal Income (constant 1972 $)																								
Actual																								
1977	5,552		7,911		4,369		5,477		5,111		5,621		6,146		5,034		5,485		6,628		5,290		5,345	
1984	6,360	2.1	8,368	0.8	4,877	1.7	5,886	1.1	4,668	-1.2	6,315	1.8	7,752	3.7	5,423	1.1	6,585	2.9	8,453	3.9	6,674	3.7	6,057	1.9
Projected																								
1985	6,538	2.8	8,516	1.8	5,012	2.8	6,014	2.2	4,763	2.0	6,519	3.2	8,063	4.0	5,530	2.0	6,798	3.2	8,754	3.6	6,841	2.5	6,179	2.0
1992	7,637	2.4	11,321	4.7	6,190	3.4	6,649	1.5	5,295	1.6	7,159	1.4	10,275	3.9	6,250	1.9	7,709	1.9	10,933	3.6	7,755	1.9	7,219	2.4
Population (000)																								
Actual																								
1977	31,504		397		887		918		6,051		679		6,191		2,444		3,516		2,366		4,275		3,780	
1984	36,070	2.1	496	3.6	992	1.7	1,044	2.0	7,243	2.8	910	4.9	6,737	1.3	2,666	1.3	4,177	2.7	2,483	0.7	5,001	2.4	4,321	2.0
Projected																								
1985	36,632	1.6	511	3.0	996	0.4	1,057	1.2	7,440	2.7	929	2.1	6,794	0.8	2,701	1.3	4,249	1.7	2,501	0.7	5,112	2.2	4,342	0.5
1992	40,648	1.6	491	-0.6	1,042	0.7	1,169	1.5	8,782	2.6	1,138	3.2	7,025	0.5	2,900	1.1	4,977	2.4	2,540	0.2	5,899	2.2	4,685	1.1
Population Age 65 & Over (000)																								
Actual																								
1977	3,119		11		86		65		602		53		616		280		349		235		425		397	
1984	3,803	3.1	15	5.2	100	2.3	93	6.2	774	4.1	82	7.8	721	2.4	313	1.7	438	3.6	266	1.9	533	3.6	468	2.6
Projected																								
1985	3,903	2.6	16	6.7	100	—	97	4.3	803	3.7	86	4.9	733	1.7	318	1.6	455	3.9	270	1.5	551	3.4	474	1.3
1992	4,611	2.6	18	1.8	105	0.7	133	5.3	1,011	3.7	124	6.3	807	1.4	343	1.1	571	3.6	292	1.2	677	3.3	530	1.7

Table E-9. Employment, Income and Population—Actual: 1977, 1984 and Projected: 1985, 1992—IRS Service Centers

	Andover Level	Andover Annual Growth Rate (%)	Brookhaven Level	Brookhaven Annual Growth Rate (%)	Philadelphia Level	Philadelphia Annual Growth Rate (%)	Atlanta Level	Atlanta Annual Growth Rate (%)	Memphis Level	Memphis Annual Growth Rate (%)	Cincinnati Level	Cincinnati Annual Growth Rate (%)	Kansas City Level	Kansas City Annual Growth Rate (%)	Austin Level	Austin Annual Growth Rate (%)	Ogden Level	Ogden Annual Growth Rate (%)	Fresno Level	Fresno Annual Growth Rate (%)
Civilian Employment (000)																				
Actual																				
1977	9,914		8,038		7,800		8,754		9,394		10,469		10,441		9,567		8,866		8,865	
1984	11,278	2.0	9,021	1.7	8,516	1.3	10,656	3.1	10,096	1.1	10,603	0.2	10,849	0.6	12,266	4.0	10,589	2.8	11,233	3.8
Projected																				
1985	11,570	2.6	9,131	1.2	8,714	2.3	11,059	3.8	10,368	2.7	10,724	1.1	11,002	1.4	12,488	1.8	10,925	3.2	11,537	2.7
1992	12,928	1.7	9,796	1.0	9,466	1.2	12,532	1.9	11,456	1.5	11,255	0.7	11,695	0.9	14,120	1.9	12,568	2.1	13,042	1.9
Personal Income (millions of current $)																				
Actual																				
1977	162,559		149,362		125,403		139,016		143,153		178,208		175,944		154,557		155,694		156,510	
1984	317,089	13.6	284,267	12.9	227,326	11.6	301,787	16.7	276,292	13.3	304,983	10.2	311,805	11.0	338,896	17.0	327,668	15.8	321,987	15.1
Projected																				
1985	339,548	7.1	302,216	6.3	240,241	5.7	326,402	8.2	293,103	6.1	320,428	5.1	327,979	5.2	360,590	6.4	352,238	7.5	347,327	7.9
1992	591,958	10.6	503,659	9.5	397,069	9.3	577,797	11.0	493,131	9.7	507,089	8.3	527,847	8.7	630,175	10.7	632,455	11.4	630,262	11.6
Personal Income (millions of constant 1972 $)																				
Actual																				
1977	116,711		107,209		90,006		99,825		102,800		127,933		126,296		110,942		111,787		112,310	
1984	142,290	3.1	128,472	2.8	102,811	2.0	136,734	5.3	123,889	2.9	139,960	1.3	141,873	1.8	154,222	5.6	149,847	4.9	146,553	4.4
Projected																				
1985	148,260	4.2	131,803	2.6	104,856	2.0	141,805	3.7	127,695	3.1	142,580	1.9	145,437	2.5	160,202	3.9	156,170	4.2	153,454	4.7
1992	185,729	3.6	157,907	2.8	124,965	2.7	179,814	3.8	153,948	2.9	163,309	2.1	167,515	2.2	202,934	3.8	201,691	4.2	199,986	4.3
Per Capita Personal Income (current $)																				
Actual																				
1977	7,033		8,112		7,210		5,945		6,241		6,998		7,382		6,529		7,000		7,904	
1984	13,459	13.1	15,480	13.0	12,356	10.2	11,344	13.0	11,384	11.8	11,993	10.2	12,968	10.8	12,219	12.4	12,707	11.6	14,305	11.6
Projected																				
1985	14,264	6.0	16,353	5.6	13,009	5.3	12,046	6.2	11,915	4.7	12,607	5.1	13,659	5.3	12,881	5.4	13,472	6.0	15,164	6.0
1992	23,400	9.1	26,576	8.9	20,838	8.6	19,044	8.3	19,082	8.6	19,681	8.0	21,681	8.4	20,920	8.9	21,822	8.9	24,798	9.1
Per Capita Personal Income (constant 1972 $)																				
Actual																				
1977	5,050		5,823		5,175		4,269		4,482		5,024		5,299		4,687		5,025		5,671	
1984	6,039	2.8	6,996	2.9	5,588	1.1	5,140	2.9	5,104	2.0	5,503	1.4	5,900	1.6	5,560	2.7	5,811	2.2	6,511	2.1
Projected																				
1985	6,228	3.1	7,132	1.9	5,678	1.6	5,233	1.8	5,191	1.7	5,610	1.9	6,057	2.7	5,723	2.9	5,973	2.8	6,699	2.9
1992	7,341	2.6	8,332	2.4	6,558	2.2	5,926	1.9	5,957	2.1	6,338	1.9	6,880	1.9	6,737	2.5	6,959	2.4	7,868	2.5
Population (000)																				
Actual																				
1977	23,111		18,411		17,392		23,383		22,934		25,464		23,832		23,669		22,242		19,801	
1984	23,559	0.3	18,363	—	18,398	0.8	26,601	2.0	24,270	0.8	25,430	—	24,044	0.1	27,733	2.5	25,786	2.3	22,508	2.0
Projected																				
1985	23,803	1.0	18,480	0.6	18,466	0.4	27,096	1.9	24,598	1.4	25,415	-0.1	24,011	-0.1	27,992	0.9	26,144	1.4	22,904	1.8
1992	25,297	0.9	18,951	0.4	19,055	0.5	30,339	1.7	25,842	0.7	25,765	0.2	24,345	0.2	30,122	1.1	28,982	1.6	25,415	1.6
Population Age 65 & Over (000)																				
Actual																				
1977	2,717		2,124		1,951		2,853		2,329		2,601		2,754		2,379		2,240		1,943	
1984	3,025	1.6	2,352	1.5	2,228	2.0	3,720	4.3	2,752	2.6	2,858	1.4	3,000	1.3	2,938	3.4	2,711	3.0	2,387	3.3
Projected																				
1985	3,091	2.2	2,402	2.1	2,277	2.2	3,857	3.7	2,830	2.8	2,886	1.0	3,022	0.7	3,000	2.1	2,776	2.4	2,454	2.8
1992	3,509	1.9	2,680	1.7	2,615	2.1	4,825	3.6	3,234	2.0	3,123	1.2	3,206	0.9	3,345	1.6	3,212	2.2	2,920	2.7

Table Notes: Emploment, Income and Population

1. Detail may not add due to rounding.

2. All growth rates are computed on an average annual basis.

3. Growth rates that round to zero are omitted from these tables.

4. Economic and demographic data are not available for the Foreign Operations District.

5. Data for IRS Regions are presented as though the alignment that became effective October 1, 1984 has existed since 1977.

6. Data for IRS Service Centers are presented as though the alignment that became effective January 1, 1986 has existed since 1977.

Table A-1. Total Collections—Actual: 1977, 1984 and Tax Return Filings—Actual: 1977, 1984 and Projected: 1985, 1992—United States and IRS Regions

	United States		North Atlantic		Mid-Atlantic		Southeast		Central		Midwest		Southwest		Western	
	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)
Total Collections (millions of $)																
Actual																
1977	358,139		57,904		63,429		45,203		46,255		63,715		36,709		52,235	
1984	680,475	12.9	120,187	15.4	99,990	8.2	84,796	12.5	89,445	13.3	96,633	7.4	86,131	19.2	99,400	12.9
Total Returns (000)																
Actual																
1977	133,796		19,202		19,055		22,196		17,567		19,830		15,834		20,112	
1984	173,805	4.3	23,811	3.4	23,981	3.7	30,380	5.3	20,644	2.5	24,086	3.1	22,718	6.2	28,184	5.7
Projected																
1985	180,911	4.1	24,348	2.3	25,043	4.4	32,044	5.5	21,191	2.6	24,794	2.9	23,817	4.8	29,675	5.3
1992	210,759	2.4	26,871	1.5	29,003	2.3	38,527	2.9	23,040	1.2	27,251	1.4	29,288	3.3	36,780	3.4
Individual Returns																
Total (000)																
Actual																
1977	85,624		11,991		12,327		14,130		11,751		12,567		9,955		12,902	
1984	96,652	1.8	12,971	1.2	13,740	1.6	17,128	3.0	12,059	0.4	13,143	0.7	12,450	3.6	15,162	2.5
Projected																
1985	101,093	4.6	13,387	3.2	14,554	5.9	18,323	7.0	12,366	2.5	13,534	3.0	13,022	4.6	15,907	4.9
1992	115,817	2.1	14,816	1.5	16,976	2.4	21,668	2.6	13,499	1.3	14,735	1.3	15,443	2.7	18,681	2.5
Form 1040 (000)																
Actual																
1977	56,596		7,909		7,785		8,839		7,697		8,753		6,476		9,136	
1984	61,186	1.2	8,449	1.0	8,357	1.0	9,821	1.6	7,698	—	8,897	0.2	7,771	2.9	10,194	1.7
Projected																
1985	65,280	6.7	8,957	6.0	9,059	8.4	10,610	8.0	8,051	4.6	9,374	5.4	8,308	6.9	10,921	7.1
1992	74,549	2.0	9,957	1.6	10,879	2.9	12,564	2.6	8,525	0.8	10,077	1.1	9,790	2.5	12,758	2.4
Form 1040A (000)																
Actual																
1977	29,028		4,082		4,542		5,290		4,055		3,814		3,479		3,766	
1984	19,590	—	2,372	—	2,880	—	4,508	—	2,421	—	2,173	—	2,586	—	2,650	—
Projected																
1985	18,950	-3.3	2,238	-5.6	2,841	-1.4	4,612	2.3	2,283	-5.7	2,005	-7.7	2,473	-4.4	2,499	-5.7
1992	23,413	3.4	2,493	1.6	3,443	3.0	5,793	3.7	2,793	3.2	2,364	2.6	3,235	4.4	3,292	4.5
Form 1040EZ (000)																
Actual																
1984	15,721		2,151		2,348		2,799		1,940		2,073		2,093		2,317	
Projected																
1985	16,700	6.2	2,192	1.9	2,492	6.1	3,101	10.8	2,031	4.7	2,156	4.0	2,241	7.1	2,487	7.3
1992	17,692	0.8	2,366	1.1	2,492	—	3,310	1.0	2,182	1.1	2,293	0.9	2,419	1.1	2,631	0.8
Corporation Returns (000)																
Actual																
1977	2,268		450		328		367		263		326		242		291	
1984	3,167	5.7	519	2.2	412	3.6	578	8.2	334	3.8	422	4.2	427	10.9	475	9.0
Projected																
1985	3,379	6.7	539	3.8	446	8.2	623	7.8	356	6.7	452	7.1	458	7.3	505	6.3
1992	4,649	5.4	656	3.1	597	4.8	883	6.0	460	4.2	606	4.9	692	7.3	755	7.1
Employment Returns (000)																
Actual																
1977	25,079		3,610		3,432		4,612		2,992		3,597		3,144		3,693	
1984	26,104	0.6	3,593	-0.1	3,321	-0.5	4,881	0.8	2,928	-0.3	3,589	—	3,619	2.2	4,173	1.9
Projected																
1985	26,816	2.7	3,617	0.7	3,406	2.6	5,012	2.7	2,983	1.9	3,637	1.3	3,769	4.1	4,392	5.3
1992	29,405	1.4	3,652	0.1	3,546	0.6	5,631	1.8	3,025	0.2	3,744	0.4	4,383	2.3	5,424	3.4

Table R-2. Total Collections—Actual: 1977, 1984 and Tax Return Filings—Actual: 1977, 1984 and Projected: 1985, 1992—IRS North Atlantic Region and Districts

	North Atlantic		Albany		Augusta		Boston		Brooklyn		Buffalo		Burlington		Hartford		Manhattan		Portsmouth		Providence	
	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)
Total Collections (millions of $)																						
Actual																						
1977	57,904		2,095		898		8,702		5,632		5,193		378		9,909		22,987		879		1,231	
1984	120,187	15.4	6,817	32.2	1,732	13.3	19,008	16.9	11,493	14.9	9,113	10.8	824	16.8	15,352	7.8	51,251	17.6	2,185	21.2	2,412	13.7
Total Returns (000)																						
Actual																						
1977	19,202		1,162		662		3,639		3,994		2,654		322		2,294		3,310		553		612	
1984	23,811	3.4	1,526	4.5	846	4.0	4,710	4.2	4,982	3.5	3,114	2.5	430	4.8	2,768	3.0	3,906	2.6	789	6.1	741	3.0
Projected																						
1985	24,348	2.3	1,622	6.3	856	1.2	4,736	0.5	5,197	4.3	3,285	5.5	434	0.9	2,851	3.0	3,799	-2.7	814	3.2	753	1.6
1992	26,871	1.5	1,891	2.4	964	1.8	5,274	1.6	5,714	1.4	3,611	1.4	518	2.8	3,361	2.6	3,658	-0.5	1,021	3.6	860	2.0
Individual Returns Total (000)																						
Actual																						
1977	11,991		768		416		2,368		2,607		1,781		190		1,430		1,684		349		398	
1984	12,971	1.2	886	2.2	475	2.0	2,642	1.7	2,828	1.2	1,833	0.4	218	2.1	1,491	0.6	1,742	0.5	439	3.7	417	0.7
Projected																						
1985	13,387	3.2	937	5.7	486	2.4	2,724	3.1	2,927	3.5	1,894	3.3	224	2.6	1,587	6.4	1,701	-2.0	462	5.2	439	5.2
1992	14,816	1.5	1,127	2.9	540	1.6	3,058	1.8	3,211	1.4	2,089	1.5	267	2.7	1,925	3.0	1,504	-1.7	573	3.4	523	2.7
Form 1040 (000)																						
Actual																						
1977	7,909		477		230		1,475		1,945		1,133		115		905		1,208		197		225	
1984	8,449	1.0	577	3.0	268	2.4	1,653	1.7	1,969	0.2	1,236	1.3	133	2.2	931	0.4	1,184	-0.3	254	4.2	243	1.1
Projected																						
1985	8,957	6.0	646	11.8	283	5.7	1,747	5.7	2,073	5.3	1,332	7.8	139	4.7	1,020	9.5	1,177	-0.6	280	10.3	260	7.0
1992	9,957	1.6	836	4.2	320	1.8	1,983	1.9	2,266	1.3	1,492	1.7	166	2.7	1,209	2.7	1,020	-1.9	362	4.1	303	2.3
Form 1040A (000)																						
Actual																						
1977	4,082		291		186		893		662		648		75		525		476		152		173	
1984	2,372	—	152	—	113	—	455	—	513	—	291	—	45	—	264	—	359	—	88	—	91	—
Projected																						
1985	2,238	-5.6	139	-8.9	104	-7.6	422	-7.3	512	-0.2	258	-11.3	42	-6.3	252	-4.7	339	-5.5	81	-7.7	88	-3.1
1992	2,493	1.6	171	3.3	115	1.5	497	2.5	526	0.4	295	2.1	53	3.4	347	5.4	275	-2.7	100	3.4	114	4.1
Form 1040EZ (000)																						
Actual																						
1984	2,151		157		94		533		346		307		40		295		199		97		83	
Projected																						
1985	2,192	1.9	153	-2.4	99	4.9	555	4.1	342	-1.1	305	-0.6	42	5.9	315	6.5	191	-4.0	101	3.7	91	9.3
1992	2,366	1.1	120	-3.1	104	0.8	577	0.6	419	3.2	302	-0.1	48	2.1	368	2.4	209	1.4	111	1.4	106	2.5
Corporation Returns (000)																						
Actual																						
1977	450		22		11		76		102		44		6		44		120		10		16	
1984	519	2.2	26	2.8	14	3.9	90	2.8	117	2.1	45	0.4	9	5.9	52	2.5	135	1.8	14	4.7	18	1.5
Projected																						
1985	539	3.8	27	5.0	15	5.7	93	2.4	124	6.0	45	1.3	10	8.2	55	5.5	138	1.8	14	6.1	18	4.5
1992	656	3.1	34	3.5	20	4.8	120	4.2	147	2.7	50	1.4	15	6.9	80	6.6	150	1.3	20	5.7	21	2.1
Employment Returns (000)																						
Actual																						
1977	3,610		207		133		617		692		429		73		385		852		107		115	
1984	3,593	-0.1	210	0.2	135	0.2	652	0.8	679	-0.3	411	-0.6	81	1.7	389	0.2	800	-0.9	120	1.8	115	—
Projected																						
1985	3,617	0.7	211	0.3	137	1.3	659	1.1	693	2.1	413	0.4	82	1.4	402	3.3	783	-2.2	122	1.2	115	0.5
1992	3,652	0.1	206	-0.3	145	0.8	703	1.0	708	0.3	409	-0.1	92	1.6	418	0.6	717	-1.2	136	1.7	118	0.3

Table R-3. Total Collections—Actual: 1977, 1984 and Tax Return Filings—Actual: 1977, 1984 and Projected: 1985, 1992—IRS Mid-Atlantic Region and Districts

	Mid-Atlantic		Baltimore		Newark		Philadelphia		Pittsburgh		Richmond		Wilmington		F.O.D.	
	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)
Total Collections (millions of $)																
Actual																
1977	63,429		10,549		26,783		10,871		6,636		5,782		1,554		1,255	
1984	99,990	8.2	19,751	12.5	27,097	0.2	20,855	13.1	13,316	14.4	12,684	17.1	3,308	16.1	2,978	19.6
Total Returns (000)																
Actual																
1977	19,055		3,209		4,820		4,374		2,581		2,966		418		688	
1984	23,981	3.7	3,819	2.7	6,329	4.5	5,414	3.4	3,064	2.7	3,960	4.8	471	1.8	923	4.9
Projected																
1985	25,043	4.4	3,935	3.0	6,689	5.7	5,536	2.3	3,341	9.0	4,105	3.7	494	4.9	943	2.2
1992	29,003	2.3	4,475	2.0	8,039	2.9	6,112	1.5	3,741	1.7	4,893	2.7	571	2.2	1,171	3.4
Individual Returns Total (000)																
Actual																
1977	12,327		2,132		3,063		2,887		1,761		1,958		236		290	
1984	13,740	1.6	2,242	0.7	3,572	2.4	3,096	1.0	1,799	0.3	2,333	2.7	265	1.7	434	7.1
Projected																
1985	14,554	5.9	2,331	4.0	3,781	5.8	3,254	5.1	2,025	12.6	2,442	4.7	284	7.5	437	0.7
1992	16,976	2.4	2,636	1.9	4,648	3.3	3,616	1.6	2,322	2.1	2,905	2.7	334	2.5	514	2.5
Form 1040 (000)																
Actual																
1977	7,785		1,353		2,024		1,791		1,017		1,182		148		270	
1984	8,357	1.0	1,398	0.5	2,187	1.1	1,891	0.8	1,076	0.8	1,391	2.5	164	1.5	250	-1.1
Projected																
1985	9,059	8.4	1,477	5.7	2,372	8.5	2,044	8.1	1,260	17.0	1,483	6.6	183	11.7	240	-3.8
1992	10,879	2.9	1,730	2.4	2,942	3.4	2,382	2.4	1,497	2.7	1,810	3.2	227	3.5	289	2.9
Form 1040A (000)																
Actual																
1977	4,542		779		1,039		1,096		745		776		88		19	
1984	2,880	—	435	—	778	—	677	—	428	—	485	—	54	—	23	—
Projected																
1985	2,841	-1.4	421	-3.3	795	2.2	650	-3.9	435	1.7	461	-4.9	52	-3.8	25	10.9
1992	3,443	3.0	532	3.8	899	1.9	758	2.4	529	3.1	611	4.6	63	3.2	52	14.7
Form 1040EZ (000)																
Actual																
1984	2,348		409		607		528		294		456		47		7	
Projected																
1985	2,492	6.1	432	5.8	613	0.9	560	6.0	330	12.3	498	9.2	50	5.8	8	20.0
1992	2,491	—	375	-1.9	807	4.5	476	-2.1	295	-1.5	484	-0.4	44	-1.8	11	4.2
Corporation Returns (000)																
Actual																
1977	328		52		123		67		29		42		8		8	
1984	412	3.6	64	3.5	147	2.8	77	2.2	34	2.5	62	6.7	12	5.8	16	13.9
Projected																
1985	446	8.2	70	8.4	161	9.3	80	4.2	36	5.9	68	9.3	13	13.2	18	13.2
1992	597	4.8	93	4.8	204	3.9	104	4.3	48	4.8	93	5.3	21	8.2	33	12.2
Employment Returns (000)																
Actual																
1977	3,432		546		886		749		421		570		74		186	
1984	3,321	-0.5	534	-0.3	888	—	682	-1.3	381	-1.3	594	0.6	68	-1.3	174	-0.9
Projected																
1985	3,406	2.6	544	1.8	903	1.7	718	5.3	386	1.2	601	1.2	68	0.7	186	7.3
1992	3,546	0.6	572	0.7	929	0.4	728	0.2	382	-0.1	652	1.2	67	-0.2	215	2.2

Table R-4. Total Collections—Actual: 1977, 1984 and Tax Return Filings—Actual: 1977, 1984 and Projected: 1985, 1992—IRS Southeast Region and Districts

	Southeast		Atlanta		Birmingham		Columbia		Greensboro		Jackson		Jacksonville		Little Rock		Nashville		New Orleans	
	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)
Total Collections (millions of $)																				
Actual																				
1977	45,203		5,118		3,000		2,180		7,159		1,337		11,024		1,515		9,912		3,958	
1984	84,796	12.5	13,304	22.8	6,011	14.3	4,590	15.8	14,532	14.7	2,614	13.6	23,476	16.1	3,349	17.3	8,736	-1.7	8,184	15.2
Total Returns (000)																				
Actual																				
1977	22,196		2,852		1,886		1,568		3,162		1,170		5,706		1,160		2,596		2,095	
1984	30,380	5.3	3,772	4.6	2,328	3.3	2,016	4.1	4,119	4.3	1,472	3.7	9,396	9.2	1,479	3.9	2,989	2.2	2,809	4.9
Projected																				
1985	32,044	5.5	4,018	6.5	2,423	4.0	2,126	5.5	4,290	4.2	1,527	3.7	10,066	7.1	1,565	5.8	3,121	4.4	2,909	3.5
1992	38,527	2.9	4,769	2.7	2,678	1.5	2,478	2.4	5,130	2.8	1,689	1.5	12,934	4.1	1,818	2.3	3,473	1.6	3,558	3.2
Individual Returns Total (000)																				
Actual																				
1977	14,130		1,855		1,246		1,040		2,067		751		3,397		726		1,695		1,352	
1984	17,128	3.0	2,259	3.1	1,422	2.0	1,224	2.5	2,449	2.6	870	2.3	4,666	5.3	821	1.9	1,802	0.9	1,615	2.8
Projected																				
1985	18,323	7.0	2,478	9.7	1,500	5.5	1,320	7.8	2,576	5.2	919	5.6	5,089	9.1	866	5.5	1,918	6.4	1,657	2.6
1992	21,668	2.6	2,975	2.9	1,676	1.7	1,551	2.5	3,118	3.0	1,021	1.6	6,165	3.0	1,012	2.4	2,142	1.7	2,008	3.0
Form 1040 (000)																				
Actual																				
1977	8,839		1,134		827		648		1,271		443		2,230		483		961		841	
1984	9,821	1.6	1,228	1.2	854	0.5	680	0.7	1,380	1.2	448	0.1	2,820	3.8	496	0.4	994	0.5	922	1.4
Projected																				
1985	10,610	8.0	1,357	10.5	881	3.2	724	6.5	1,458	5.7	464	3.7	3,119	10.6	547	10.2	1,073	8.0	987	7.1
1992	12,564	2.6	1,672	3.3	959	1.3	858	2.6	1,688	2.3	504	1.2	3,952	3.8	612	1.7	1,144	0.9	1,175	2.7
Form 1040A (000)																				
Actual																				
1977	5,290		720		419		392		796		308		1,168		243		734		511	
1984	4,508	—	640	—	375	—	350	—	665	—	303	—	1,000	—	217	—	509	—	449	—
Projected																				
1985	4,612	2.3	686	7.2	403	7.3	379	8.1	654	-1.6	322	6.5	1,051	5.1	202	-6.6	501	-1.5	414	-8.0
1992	5,793	3.7	848	3.4	482	2.8	469	3.4	904	5.4	382	2.7	1,287	3.2	254	3.7	640	4.0	527	3.9
Form 1040EZ (000)																				
Actual																				
1984	2,799		392		192		194		403		120		846		108		300		243	
Projected																				
1985	3,101	10.8	436	11.1	216	12.4	217	11.9	463	14.8	133	10.6	918	8.6	117	7.9	344	14.8	257	5.5
1992	3,310	1.0	455	0.6	235	1.2	225	0.5	526	1.9	135	0.2	926	0.1	146	3.5	358	0.6	307	2.8
Corporation Returns (000)																				
Actual																				
1977	367		44		24		22		49		15		125		18		30		39	
1984	578	8.2	67	7.7	34	5.6	33	7.7	66	5.0	22	5.9	227	11.7	25	5.0	40	4.5	64	8.9
Projected																				
1985	623	7.8	72	6.6	36	5.9	36	7.1	72	8.4	24	7.4	246	8.6	27	11.0	43	8.1	68	5.9
1992	883	6.0	98	5.2	43	3.1	48	4.9	96	4.7	30	3.8	370	7.2	39	6.2	57	4.5	103	7.4
Employment Returns (000)																				
Actual																				
1977	4,612		615		402		328		659		264		1,157		248		499		439	
1984	4,881	0.8	638	0.5	388	-0.5	334	0.3	670	0.2	261	-0.2	1,391	2.9	245	-0.1	476	-0.6	477	1.2
Projected																				
1985	5,012	2.7	643	0.9	392	1.1	337	0.8	685	2.2	264	1.3	1,455	4.6	256	4.3	481	0.9	499	4.6
1992	5,631	1.8	694	1.1	402	0.4	363	1.1	757	1.5	274	0.5	1,807	3.5	267	0.6	494	0.4	573	2.1

Table R-5. Total Collections—Actual: 1977, 1984 and Tax Return Filings—Actual: 1977, 1984 and Projected: 1985, 1992—IRS Central Region and Districts

	Central		Cincinnati		Cleveland		Detroit		Indianapolis		Louisville		Parkersburg	
	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)
Total Collections (millions of $)														
Actual														
1977	46,255		8,369		11,440		14,642		6,182		4,180		1,442	
1984	89,445	13.3	12,549	7.1	21,173	12.2	32,960	17.9	13,608	17.2	6,986	9.6	2,168	7.2
Total Returns (000)														
Actual														
1977	17,567		2,721		3,767		5,183		3,107		1,841		949	
1984	20,644	2.5	3,136	2.2	4,367	2.3	6,047	2.4	3,726	2.8	2,247	3.1	1,121	2.6
Projected														
1985	21,191	2.6	3,273	4.4	4,492	2.9	6,126	1.3	3,831	2.8	2,328	3.6	1,140	1.7
1992	23,040	1.2	3,396	0.5	4,853	1.1	6,806	1.6	4,190	1.3	2,549	1.4	1,245	1.3
Individual Returns Total (000)														
Actual														
1977	11,751		1,826		2,514		3,515		2,071		1,197		629	
1984	12,059	0.4	1,834	0.1	2,509	—	3,569	0.2	2,180	0.8	1,309	1.3	657	0.6
Projected														
1985	12,366	2.5	1,903	3.7	2,616	4.2	3,566	-0.1	2,252	3.3	1,356	3.6	674	2.6
1992	13,499	1.3	1,933	0.2	2,863	1.3	4,013	1.8	2,471	1.4	1,476	1.3	744	1.5
Form 1040 (000)														
Actual														
1977	7,697		1,144		1,609		2,459		1,331		816		338	
1984	7,698	—	1,106	-0.5	1,586	-0.2	2,450	-0.1	1,340	0.1	859	0.8	358	0.8
Projected														
1985	8,051	4.6	1,172	6.0	1,711	7.9	2,495	1.9	1,406	4.9	892	3.8	375	4.9
1992	8,525	0.8	1,131	-0.5	1,827	1.0	2,765	1.5	1,495	0.9	932	0.7	374	-0.1
Form 1040A (000)														
Actual														
1977	4,055		682		904		1,056		739		381		291	
1984	2,421	—	403	—	517	—	534	—	495	—	269	—	203	—
Projected														
1985	2,283	-5.7	386	-4.3	486	-5.9	490	-8.2	468	-5.5	260	-3.2	193	-5.1
1992	2,793	3.2	415	1.1	574	2.6	615	3.6	598	4.0	334	4.0	257	4.8
Form 1040EZ (000)														
Actual														
1984	1,940		325		407		585		344		182		96	
Projected														
1985	2,031	4.7	345	6.1	418	2.7	580	-0.8	377	9.6	205	12.5	106	10.4
1992	2,182	1.1	387	1.7	461	1.5	633	1.3	378	—	210	0.4	113	1.0
Corporation Returns (000)														
Actual														
1977	263		38		60		79		46		26		14	
1984	334	3.8	46	2.8	70	2.5	106	4.8	61	4.5	34	4.7	17	3.0
Projected														
1985	356	6.7	48	5.4	74	5.3	112	5.7	68	11.4	36	6.3	18	5.7
1992	460	4.2	61	3.7	90	3.1	153	5.2	87	4.0	48	4.6	22	3.2
Employment Returns (000)														
Actual														
1977	2,992		449		624		844		526		365		183	
1984	2,928	-0.3	431	-0.6	603	-0.5	868	0.4	506	-0.5	350	-0.6	169	-1.1
Projected														
1985	2,983	1.9	440	2.2	614	1.7	878	1.2	513	1.3	368	4.9	170	0.7
1992	3,025	0.2	436	-0.1	613	—	898	0.3	523	0.3	381	0.5	173	0.3

Table R-6. Total Collections—Actual: 1977, 1984 and Tax Return Filings—Actual: 1977, 1984 and Projected: 1985, 1992—IRS Midwest Region and Districts

	Midwest		Aberdeen		Chicago		Des Moines		Fargo		Helena		Milwaukee		Omaha		St. Louis		St. Paul		Springfield	
	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)
Total Collections (millions of $)																						
Actual																						
1977	63,715		543		30,404		3,311		625		639		6,462		2,142		8,150		7,273		4,166	
1984	96,633	7.4	958	10.9	35,899	2.6	5,103	7.7	1,052	9.8	1,138	11.2	10,897	9.8	4,292	14.3	16,746	15.1	14,766	14.7	5,782	5.5
Total Returns (000)																						
Actual																						
1977	19,830		440		5,292		1,912		436		536		2,909		1,058		2,917		2,468		1,863	
1984	24,086	3.1	542	3.3	6,230	2.5	2,264	2.6	552	3.8	676	3.7	3,545	3.1	1,289	3.1	3,663	3.7	3,118	3.8	2,207	2.6
Projected																						
1985	24,794	2.9	549	1.4	6,443	3.4	2,308	1.9	561	1.6	691	2.2	3,657	3.1	1,314	1.9	3,758	2.6	3,236	3.8	2,278	3.2
1992	27,251	1.4	598	1.3	6,857	0.9	2,487	1.1	622	1.6	799	2.2	4,111	1.8	1,426	1.2	4,146	1.5	3,766	2.3	2,438	1.0
Individual Returns Total (000)																						
Actual																						
1977	12,567		263		3,514		1,144		256		310		1,835		628		1,843		1,587		1,187	
1984	13,143	0.7	280	0.9	3,530	0.1	1,160	0.2	280	1.3	336	1.2	1,951	0.9	666	0.9	1,997	1.2	1,730	1.3	1,213	0.3
Projected																						
1985	13,534	3.0	278	-0.7	3,679	4.2	1,173	1.1	277	-1.0	337	0.2	2,012	3.1	668	0.3	2,042	2.2	1,773	2.5	1,296	6.8
1992	14,735	1.3	290	0.6	3,887	0.8	1,250	0.9	295	0.9	376	1.6	2,273	1.9	705	0.8	2,228	1.3	2,018	2.0	1,411	1.3
Form 1040 (000)																						
Actual																						
1977	8,753		182		2,311		884		182		224		1,252		449		1,289		1,152		828	
1984	8,897	0.2	194	0.9	2,239	-0.4	863	-0.3	198	1.2	249	1.6	1,307	0.6	466	0.5	1,311	0.2	1,260	1.3	809	-0.3
Projected																						
1985	9,374	5.4	194	—	2,435	8.7	894	3.5	199	0.5	249	0.2	1,375	5.2	472	1.3	1,371	4.5	1,291	2.5	894	10.5
1992	10,077	1.1	203	0.7	2,550	0.7	944	0.8	219	1.4	276	1.5	1,520	1.5	503	0.9	1,456	0.9	1,444	1.7	963	1.1
Form 1040A (000)																						
Actual																						
1977	3,814		80		1,203		261		74		86		583		179		553		435		359	
1984	2,173	—	41	—	696	—	147	—	39	—	41	—	312	—	98	—	391	—	180	—	228	—
Projected																						
1985	2,005	-7.7	37	-8.4	639	-8.1	130	-12.0	35	-9.7	39	-5.9	288	-7.5	91	-7.2	362	-7.6	169	-5.9	214	-6.0
1992	2,364	2.6	41	1.5	768	2.9	146	1.8	38	1.3	47	2.9	353	3.2	104	2.0	421	2.4	201	2.7	244	2.0
Form 1040EZ (000)																						
Actual																						
1984	2,073		45		595		149		43		46		333		102		294		290		176	
Projected																						
1985	2,156	4.0	46	3.2	604	1.6	149	-0.1	43	0.2	49	6.0	349	4.9	105	3.2	310	5.2	312	7.7	188	6.8
1992	2,293	0.9	46	-0.2	569	-0.8	160	1.1	38	-1.8	53	1.2	401	2.1	98	-0.9	351	1.9	373	2.8	204	1.2
Corporation Returns (000)																						
Actual																						
1977	326		6		89		32		6		10		51		19		51		42		20	
1984	422	4.2	8	4.2	119	4.8	40	3.8	9	5.5	14	5.9	59	2.5	26	5.6	64	3.5	58	5.4	26	3.8
Projected																						
1985	452	7.1	9	11.4	124	4.2	44	9.9	10	10.7	15	7.8	62	4.1	29	11.4	68	6.3	65	12.0	28	7.2
1992	606	4.9	12	3.7	159	4.0	61	5.5	13	4.6	20	5.6	77	3.4	41	5.7	94	5.6	95	6.7	35	3.8
Employment Returns (000)																						
Actual																						
1977	3,597		96		828		382		95		115		520		219		562		439		341	
1984	3,589	—	94	-0.3	829	—	356	-1.0	98	0.3	124	1.1	532	0.3	218	-0.1	550	-0.3	468	1.0	320	-0.9
Projected																						
1985	3,637	1.3	94	—	838	1.2	360	1.1	98	0.4	127	2.7	547	2.9	218	—	558	1.5	474	1.2	321	0.2
1992	3,744	0.4	94	-0.1	843	0.1	365	0.2	103	0.7	148	2.3	578	0.8	222	0.3	568	0.2	514	1.2	310	-0.5

Table 17. Total Collections—Actual: 1977, 1984 and Tax Return Filings—Actual: 1977, 1984 and Projected: 1985, 1992—IRS Southwest Region and Districts

	Southwest		Albuquerque		Austin		Cheyenne		Dallas		Denver		Houston		Oklahoma City		Phoenix		Salt Lake City		Wichita	
	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)
Total Collections (millions of $)																						
Actual																						
1977	36,709		848		14,123		443		8,262		3,357		—		3,907		2,051		1,160		2,559	
1984	86,131	19.2	2,006	19.5	9,778	-4.4	875	13.9	22,228	24.2	11,614	35.1	16,228	—	9,762	21.4	5,106	21.3	2,698	18.9	5,836	18.3
Total Returns (000)																						
Actual																						
1977	15,834		687		4,455		284		3,403		1,757		—		1,656		1,339		718		1,535	
1984	22,718	6.2	954	5.6	3,468	-3.2	400	5.8	4,996	6.7	2,549	6.4	2,877	—	2,346	6.0	2,228	9.5	968	5.0	1,932	3.7
Projected																						
1985	23,817	4.8	1,017	6.6	3,726	7.4	405	1.2	5,121	2.5	2,640	3.6	3,113	8.2	2,427	3.4	2,360	5.9	1,008	4.1	2,002	3.6
1992	29,288	3.3	1,332	4.4	4,470	2.9	506	3.6	6,061	2.6	3,348	3.8	3,846	3.4	2,894	2.8	3,270	5.5	1,280	3.9	2,281	2.0
Individual Returns																						
Total (000)																						
Actual																						
1977	9,955		444		2,895		167		2,079		1,089		—		1,027		867		465		922	
1984	12,450	3.6	552	3.5	1,977	-4.5	207	3.4	2,690	4.2	1,371	3.7	1,634	—	1,254	3.1	1,208	5.6	561	2.9	996	1.1
Projected																						
1985	13,022	4.6	593	7.3	2,098	6.1	203	-2.0	2,856	6.2	1,391	1.4	1,734	6.1	1,281	2.2	1,270	5.2	578	3.1	1,019	2.3
1992	15,443	2.7	772	4.3	2,428	2.3	244	2.9	3,315	2.3	1,690	3.1	2,004	2.2	1,462	2.0	1,683	4.6	701	3.0	1,144	1.8
Form 1040 (000)																						
Actual																						
1977	6,476		272		1,659		113		1,342		756		—		738		612		317		669	
1984	7,771	2.9	328	3.0	1,032	-5.4	144	3.9	1,598	2.7	949	3.6	974	—	843	2.0	820	4.9	392	3.4	689	0.4
Projected																						
1985	8,308	6.9	368	12.0	1,115	8.0	142	-1.6	1,736	8.6	977	2.9	1,055	8.4	894	6.0	882	7.5	409	4.3	730	6.0
1992	9,790	2.5	477	4.2	1,169	0.7	179	3.8	1,996	2.1	1,233	3.8	1,183	1.7	1,019	2.0	1,194	5.1	517	3.8	822	1.8
Form 1040A (000)																						
Actual																						
1977	3,479		173		1,236		54		738		333		—		290		254		148		253	
1984	2,586	—	132	—	565	—	32	—	614	—	189	—	377	—	240	—	198	—	74	—	165	—
Projected																						
1985	2,473	-4.4	125	-5.1	556	-1.6	29	-7.9	597	-2.7	175	-7.4	371	-1.5	214	-11.0	189	-4.7	70	-5.8	146	-11.4
1992	3,235	4.4	171	5.2	739	4.7	35	2.8	772	4.2	221	3.7	519	5.7	250	2.4	266	5.8	85	3.2	177	3.0
Form 1040EZ (000)																						
Actual																						
1984	2,093		92		379		32		478		233		284		170		189		95		142	
Projected																						
1985	2,241	7.1	99	8.5	426	12.5	32	1.7	522	9.3	239	2.4	307	8.4	174	2.1	200	5.5	99	4.9	142	0.1
1992	2,419	1.1	124	3.5	520	3.1	30	-1.0	547	0.7	237	-0.1	301	-0.3	192	1.6	223	1.6	99	—	145	0.3
Corporation Returns (000)																						
Actual																						
1977	242		10		58		6		49		34		—		27		22		14		24	
1984	427	10.9	15	7.0	51	-1.7	9	7.6	90	12.1	57	9.7	62	—	45	10.0	43	13.7	21	7.6	33	5.6
Projected																						
1985	458	7.3	17	11.9	56	9.4	10	8.7	95	4.6	61	7.3	64	3.9	50	9.6	46	7.2	23	8.0	37	12.0
1992	692	7.3	27	8.6	75	4.9	16	9.9	141	7.0	90	6.6	99	7.7	82	9.2	74	8.7	34	6.6	55	7.2
Employment Returns (000)																						
Actual																						
1977	3,144		139		853		64		724		339		—		335		242		135		312	
1984	3,619	2.2	155	1.6	550	-5.1	74	2.4	830	2.1	416	3.2	442	—	372	1.6	314	4.2	152	1.7	313	0.1
Projected																						
1985	3,769	4.1	162	4.6	588	6.9	76	2.0	850	2.5	433	4.1	466	5.4	388	4.3	326	3.8	158	4.4	321	2.4
1992	4,383	2.3	198	3.2	649	1.5	95	3.6	913	1.1	547	3.8	570	3.2	452	2.3	424	4.3	197	3.5	338	0.7

Table R-6. Total Collections—Actual: 1977, 1984 and Tax Return Filings—Actual: 1977, 1984 and Projected: 1985, 1992—IRS Western Region and Districts

	Western		Anchorage		Boise		Honolulu		Laguna Nigel		Las Vegas		Los Angeles		Portland		Sacramento		San Francisco		San Jose		Seattle	
	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)
Total Collections (millions of $)																								
Actual																								
1977	52,235		803		966		1,107		—		933		19,774		5,364		—		18,223		—		5,065	
1984	99,400	12.9	1,571	13.6	1,814	12.5	1,980	11.3	14,089	—	2,150	18.6	27,475	5.6	5,184	-0.5	7,726	—	16,252	-1.5	11,082	—	10,078	14.1
Total Returns (000)																								
Actual																								
1977	20,112		261		530		559		—		443		8,321		1,736		—		5,868		—		2,393	
1984	28,184	5.7	406	7.9	672	3.8	794	6.0	5,388	—	715	8.8	5,216	-5.3	2,123	3.2	3,259	—	2,499	-8.2	3,720	—	3,393	6.0
Projected																								
1985	29,675	5.3	437	7.6	684	1.8	844	6.3	5,811	7.9	742	3.8	5,629	7.9	2,209	4.1	3,368	3.3	2,477	-0.9	3,984	7.1	3,490	2.9
1992	36,780	3.4	595	5.2	768	1.7	1,110	4.5	7,638	4.5	1,045	5.8	6,541	2.3	2,616	2.6	4,347	4.2	2,835	2.1	5,106	4.0	4,181	2.8
Individual Returns Total (000)																								
Actual																								
1977	12,902		165		326		365		—		292		5,399		1,090		—		3,750		—		1,515	
1984	15,162	2.5	235	6.1	362	1.6	450	3.3	3,001	—	416	6.1	2,786	-6.9	1,089	—	1,697	—	1,285	-9.4	2,031	—	1,808	2.8
Projected																								
1985	15,907	4.9	260	10.5	362	-0.1	474	5.3	3,208	6.9	429	3.1	2,924	4.9	1,113	2.2	1,797	5.9	1,347	4.8	2,161	6.4	1,834	1.5
1992	18,681	2.5	340	4.4	386	0.9	602	3.9	3,976	3.4	588	5.3	3,175	1.2	1,277	2.1	2,206	3.3	1,437	1.0	2,618	3.0	2,076	1.9
Form 1040 (000)																								
Actual																								
1977	9,136		113		234		249		—		201		3,984		719		—		2,651		—		985	
1984	10,194	1.7	201	11.2	258	1.5	291	2.4	2,021	—	270	4.9	1,853	-7.6	754	0.7	1,191	—	821	-9.9	1,335	—	1,198	3.1
Projected																								
1985	10,921	7.1	222	10.1	258	0.3	317	9.0	2,212	9.4	280	3.7	2,001	8.0	778	3.2	1,285	7.9	882	7.4	1,457	9.2	1,227	2.4
1992	12,758	2.4	272	3.2	276	1.0	428	5.0	2,716	3.3	386	5.4	2,124	0.9	881	1.9	1,576	3.2	926	0.7	1,749	2.9	1,422	2.3
Form 1040A (000)																								
Actual																								
1977	3,766		52		92		116		—		91		1,415		371		—		1,099		—		530	
1984	2,650	—	19	—	56	—	82	—	511	—	74	—	587	—	161	—	256	—	227	—	381	—	295	—
Projected																								
1985	2,499	-5.7	21	7.7	53	-6.4	76	-7.7	484	-5.2	71	-3.9	551	-6.2	152	-6.0	242	-5.8	212	-6.6	361	-5.3	277	-6.0
1992	3,292	4.5	42	14.4	58	1.6	97	4.0	681	5.8	104	6.6	686	3.5	194	4.0	337	5.6	266	3.6	496	5.3	330	2.7
Form 1040EZ (000)																								
Actual																								
1984	2,317		15		48		76		469		73		346		174		250		236		315		315	
Projected																								
1985	2,487	7.3	17	18.5	51	5.5	80	5.1	511	9.0	78	7.6	372	7.5	183	5.3	270	7.8	253	6.8	342	8.7	330	4.7
1992	2,631	0.8	26	7.5	51	—	77	-0.5	579	1.9	98	3.7	364	-0.3	202	1.4	293	1.2	244	-0.5	373	1.3	323	-0.3
Corporation Returns (000)																								
Actual																								
1977	291		4		9		12		—		8		125		27		—		69		—		36	
1984	475	9.0	8	13.1	13	5.9	19	7.4	87	—	16	13.8	108	-1.9	38	5.8	42	—	35	-6.9	53	—	58	8.2
Projected																								
1985	505	6.3	8	3.2	14	9.2	21	12.2	90	3.5	16	4.5	114	5.6	40	4.0	45	8.2	38	8.5	58	9.0	61	5.6
1992	755	7.1	9	2.5	19	4.5	33	7.9	140	8.0	26	8.0	175	7.7	47	2.8	70	7.9	60	8.1	90	8.1	86	5.9
Employment Returns (000)																								
Actual																								
1977	3,693		46		109		94		—		79		1,520		310		—		1,070		—		465	
1984	4,173	1.9	65	6.1	117	1.0	115	3.2	731	—	103	4.5	809	-6.7	330	0.9	481	—	343	-9.7	559	—	520	1.7
Projected																								
1985	4,392	5.3	68	4.9	118	1.4	128	11.8	795	8.7	108	4.4	847	4.6	346	4.9	512	6.4	358	4.6	567	1.4	545	4.8
1992	5,424	3.4	96	5.9	135	2.0	181	5.9	1,053	4.6	148	5.4	976	2.2	396	2.1	659	4.1	406	1.9	720	3.9	654	2.8

Table R-9. Total Collections—Actual: 1977, 1984 and Tax Return Filings—Actual: 1977, 1984 and Projected: 1985, 1992—IRS Service Centers

	Andover		Brookhaven		Philadelphia		Atlanta		Memphis		Cincinnati		Kansas City		Austin		Ogden		Fresno	
	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)
Total Collections (millions of $)																				
Actual																				
1977	36,559		55,402		30,864		22,660		30,550		40,073		52,493		33,657		24,089		39,104	
1984	72,209	13.9	89,841	8.9	60,209	13.6	49,994	17.2	52,909	10.5	75,837	12.7	74,426	6.0	74,022	17.1	56,255	19.1	70,878	11.6
Total Returns (000)																				
Actual																				
1977	14,365		12,124		11,269		13,183		12,990		14,461		14,892		13,830		11,932		14,748	
1984	14,924	0.6	15,217	3.6	13,691	3.1	18,984	6.3	18,162	5.7	13,550	-0.9	17,909	2.9	20,861	7.3	19,631	9.2	20,876	5.9
Projected																				
1985	15,350	2.9	15,686	3.1	14,249	4.1	20,159	6.2	18,816	3.6	13,891	2.5	18,443	3.0	21,879	4.9	20,325	3.5	22,113	5.9
1992	21,265	5.5	17,411	1.6	16,071	1.8	24,549	3.1	19,505	0.5	18,849	5.1	20,040	1.2	24,441	1.7	25,354	3.5	23,275	0.8
Individual Returns																				
Total (000)																				
Actual																				
1977	9,287		7,354		7,306		8,289		8,517		9,681		9,523		8,719		7,433		9,514	
1984	8,402	-1.4	8,141	1.5	7,835	1.0	10,441	3.7	10,730	3.7	7,913	-2.6	9,851	0.5	11,539	4.6	10,549	6.0	11,250	2.6
Projected																				
1985	8,754	4.2	8,414	3.4	8,331	6.3	11,305	8.3	11,217	4.5	8,084	2.2	10,202	3.6	12,103	4.9	10,773	2.1	11,909	5.9
1992	12,119	5.5	9,363	1.6	9,423	1.9	13,387	2.6	11,648	0.5	11,028	5.2	11,050	1.2	13,133	1.2	12,857	2.8	11,808	-0.1
Form 1040 (000)																				
Actual																				
1977	5,909		5,176		4,579		5,283		5,229		6,365		6,564		5,519		5,087		6,884	
1984	5,296	-1.5	5,339	0.5	4,779	0.6	6,029	2.0	6,322	3.0	5,141	-2.7	6,530	-0.1	6,884	3.5	7,353	6.4	7,513	1.3
Projected																				
1985	5,707	7.8	5,622	5.3	5,204	8.9	6,545	8.6	6,687	5.8	5,378	4.6	6,968	6.7	7,432	8.0	7,581	3.1	8,155	8.6
1992	8,115	6.0	6,228	1.5	6,126	2.5	7,945	3.1	6,749	0.1	7,030	4.4	7,433	1.0	7,841	0.8	9,138	2.9	7,943	-0.4
Form 1040A (000)																				
Actual																				
1977	3,378		2,178		2,727		3,007		3,288		3,315		2,959		3,200		2,346		2,630	
1984	1,500	—	1,651	—	1,617	—	2,668	—	2,626	—	1,454	—	1,774	—	2,759	—	1,497	—	2,045	—
Projected																				
1985	1,386	-7.6	1,647	-0.2	1,584	-2.0	2,840	6.5	2,538	-3.4	1,362	-6.3	1,633	-7.9	2,626	-4.8	1,408	-6.0	1,926	-5.8
1992	1,893	5.2	1,700	0.5	1,934	3.2	3,468	3.2	3,007	2.6	2,195	8.7	1,932	2.6	3,155	2.9	1,902	5.0	2,227	2.2
Form 1040EZ (000)																				
Actual																				
1984	1,606		1,151		1,285		1,744		1,781		1,318		1,547		1,896		1,699		1,693	
Projected																				
1985	1,660	3.3	1,145	-0.6	1,381	7.4	1,920	10.1	1,993	11.9	1,344	2.0	1,600	3.4	2,045	7.9	1,785	5.1	1,828	8.0
1992	2,111	3.9	1,435	3.6	1,201	-1.9	1,974	0.4	1,892	-0.7	1,803	4.9	1,685	0.8	2,137	0.6	1,817	0.3	1,637	-1.5
Corporation Returns (000)																				
Actual																				
1977	271		344		163		230		186		217		243		206		226		181	
1984	268	-0.2	399	2.3	203	3.4	383	9.5	280	7.2	222	0.3	308	3.8	385	12.4	377	9.6	343	12.7
Projected																				
1985	278	3.8	422	5.8	217	7.1	413	7.8	305	8.8	234	5.5	325	5.6	413	7.3	406	7.8	366	6.7
1992	455	9.1	500	2.7	300	5.4	589	6.1	371	3.1	374	8.5	425	4.4	581	5.8	556	5.2	498	5.2
Employment Returns (000)																				
Actual																				
1977	2,505		2,430		1,976		2,767		2,501		2,466		2,633		2,803		2,314		2,684	
1984	2,114	-2.2	2,367	-0.4	1,839	-1.0	3,012	1.3	2,767	1.5	1,902	-3.3	2,587	-0.2	3,385	3.0	3,093	4.8	3,038	1.9
Projected																				
1985	2,141	1.3	2,379	0.5	1,902	3.4	3,091	2.6	2,818	1.9	1,932	1.6	2,625	1.5	3,531	4.3	3,190	3.1	3,207	5.6
1992	2,740	4.0	2,354	-0.1	1,964	0.5	3,539	2.1	2,693	-0.6	2,502	4.2	2,664	0.2	3,693	0.7	3,919	3.3	3,335	0.6

Table R-10. Information Documents and Federal Tax Deposits—Actual: 1979, 1984 and Projected: 1985, 1990—United States and IRS Service Centers

	United States		Andover		Brookhaven		Philadelphia		Atlanta		Memphis		Cincinnati		Kansas City		Austin		Ogden		Fresno	
	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)
Information Documents																						
Total (000)																						
Actual																						
1979	329,715		38,264		62,185		29,684		19,319		22,791		28,945		41,410		25,024		29,086		33,007	
1984	494,443	10.0	58,546	10.6	86,523	7.8	46,781	11.5	31,558	12.7	33,959	9.8	34,439	3.8	61,032	9.5	37,998	10.4	48,721	13.5	54,886	13.3
Projected																						
1985	623,760	26.2	75,157	28.4	158,931	83.7	53,385	14.1	33,708	6.8	37,108	9.3	36,881	7.1	71,427	17.0	39,658	4.4	56,072	15.1	61,433	11.9
1990	842,842	7.0	112,040	9.8	198,888	5.0	73,794	7.6	48,808	9.0	46,155	4.9	61,700	13.5	98,348	7.5	52,639	6.5	75,685	7.0	74,784	4.3
Federal Tax Deposits (000)																						
Actual																						
1979	53,696		4,934		5,601		3,873		5,136		5,465		4,693		6,189		6,008		5,888		5,909	
1984	59,658	2.2	5,468	2.2	6,245	2.3	4,235	1.9	6,235	4.3	5,876	1.5	4,852	0.7	6,255	0.2	7,440	4.8	6,395	1.7	6,656	2.5
Projected																						
1985	65,557	9.9	5,878	7.5	6,631	6.2	4,602	8.7	6,935	11.2	6,386	8.7	5,277	8.8	6,852	9.5	8,094	8.8	6,908	8.0	7,993	20.1
1990	75,849	3.1	7,888	6.8	7,130	1.5	5,234	2.7	8,419	4.3	6,523	0.4	7,206	7.3	7,509	1.9	8,874	1.9	8,647	5.0	8,419	1.1

Table B-10. Information Documents and Federal Tax Deposits—Actual: 1979, 1984 and Projected: 1985, 1990—United States and IRS Service Centers

	United States		Andover		Brookhaven		Philadelphia		Atlanta		Memphis		Cincinnati		Kansas City		Austin		Ogden		Fresno	
	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)	Level	Annual Growth Rate (%)
Information Documents																						
Total (000)																						
Actual																						
1979	329,715		38,264		62,185		29,684		19,319		22,791		28,945		41,410		25,024		29,086		33,007	
1984	494,443	10.0	58,546	10.6	86,523	7.8	46,781	11.5	31,558	12.7	33,959	9.8	34,439	3.8	61,032	9.5	37,998	10.4	48,721	13.5	54,886	13.3
Projected																						
1985	623,760	26.2	75,157	28.4	158,931	83.7	53,385	14.1	33,708	6.8	37,108	9.3	36,881	7.1	71,427	17.0	39,658	4.4	56,072	15.1	61,433	11.9
1990	842,842	7.0	112,040	9.8	198,888	5.0	73,794	7.6	48,808	9.0	46,155	4.9	61,700	13.5	98,348	7.5	52,639	6.5	75,685	7.0	74,784	4.3
Federal Tax Deposits (000)																						
Actual																						
1979	53,696		4,934		5,601		3,873		5,136		5,465		4,693		6,189		6,008		5,888		5,909	
1984	59,658	2.2	5,468	2.2	6,245	2.3	4,235	1.9	6,235	4.3	5,876	1.5	4,852	0.7	6,255	0.2	7,440	4.8	6,395	1.7	6,656	2.5
Projected																						
1985	65,557	9.9	5,878	7.5	6,631	6.2	4,602	8.7	6,935	11.2	6,386	8.7	5,277	8.8	6,852	9.5	8,094	8.8	6,908	8.0	7,993	20.1
1990	75,849	3.1	7,888	6.8	7,130	1.5	5,234	2.7	8,419	4.3	6,523	0.4	7,206	7.3	7,509	1.9	8,874	1.9	8,647	5.0	8,419	1.1

Table Notes: Collections, Tax Returns, Information Documents and Federal Tax Deposits

1. Detail may not add due to rounding.

2. All growth rates are computed on an **average** annual basis.

3. Growth rates that round to zero are omitted from these tables.

4. Form 1040EZ was introduced in filing year 1983, significantly reducing the number of Forms 1040A filed since that year. Consequently, 1977 data for Form 1040EZ and 1977-1984 growth rates for Form 1040A are omitted from these tables.

5. Total Collections are on a fiscal year basis, while all other data are presented on a calendar year basis. The source of the Total Collections data is Table 1. of the Commissioner's Annual Report, 1977 and 1984, respectively.

6. U.S. Total Collections differ from the sum of Total Collections for IRS Regions since the U.S. figures include collections that are **undistributed** to the Regions. For a more complete explanation of the components of the Total Collections category, see Table 1. of the Commissioner's Annual Report.

7. Statistics for the United States, Mid-Atlantic Region and the Philadelphia Service Center include figures for the Foreign Operations District.

8. Data for IRS Regions are presented as though the regional alignment that became effective October 1, 1984 has existed since 1977.

9. Data for IRS Service Centers are presented as though the alignment that became effective January 1, 1986 has existed since 1977.

10. Total Returns consist of the following forms:

--Individual:	Forms 1040, 1040A, 1040C, 1040EZ, 1040NR, 1040PR, 1040SS (1984, 1985 and 1992 only).
--Estimated Tax:	Forms 1040-ES (entities for 1977, vouchers for 1984, 1985 and 1992).
--Fiduciary:	Form 1041
--Partnership:	Form 1065
--Corporation:	Forms 1120, 1120A (1985 and 1992 only), 1120-F, 1120-H, 1120-POL, 1120-S and other 1120's.
--Estate:	Forms 706, 706NA
--Gift:	Form 709
--Employment:	Forms 940, 941, 941E, 941PR, 941SS, 942, 942PR, 943, 943PR and CT-1.

--Exempt Organization: Forms 990, 900-C, 990-PF, 990-T, 4720 and 5227.
--Employee Plans: Forms 5500, 5500-C,5500-G, 5500-K and 5500-R.
--Alcohol, Tobacco and Firearms: Forms 11, alcohol and tobacco excise, 7, 8, 4705, 4706, 4707, 4708 (1977, 1984 and 1985 only).
--Excise: Forms 11C, 720, 730 and 2290.
--Selected Supplemental Documents: Forms 990AR (1977 only), 1040X, 1041A, 1042 (1984, 1985 and 1992) 1120-ND, 1120X, 2688, 4868, 7004 and 7005.
--Non Master File: Forms CT-2, 720M, 941M, 941NMI, 990BL, 1042 (1977 only) and 1120-DISC.

11. Since Form 1040-ES filings are presented on an entity basis in 1977 and on a voucher basis for 1984, 1985 and 1992, growth rates in the Total Returns category for 1977-1984 are not comparable to the 1984-1985 or the 1985-1992 intervals.

12. The Houston District was established in 1982, so 1977 tax return data and associated 1977-1984 growth rates are not presented for Houston.

13. The Laguna Niguel, Sacramento and San Jose Districts were established in 1983, so 1977 tax return data and associated 1977-1983 growth rates are not presented for these Districts.

14. Information Documents consist of the following: Forms 1098, 1099A, 1099ASC, 1099B, 1099DIV, 1099G, 1099INT, 1099MISC, 1099OID, 1099PAIR, 1099R and 5498.

Accuracy of Projections

by
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Introduction

Projections of returns filed are developed by the Projections and Forecasting Group of the Research Division to help justify budget requests, plan workload, and allocate resources. These projections are updated annually or semi-annually to reflect changes in the economic and demographic outlook and the impact of new legislation and regulatory changes. Most projections of returns to be filed are based on regression models using economic data. These are acquired from public and private sources such as Data Resources Inc., Wharton Econometrics, Bureau of the Census, etc. Some have been published in Document 6011 as a service to those interested in using the data for speeches, management briefings, and evaluative trend studies.

Return filing projections are prepared for approximately sixty return types, fifteen information documents, and a variety of other categories. They are prepared at the following geographic levels: national and IRS regions, service center support areas and districts. These projections are published in several different public use documents: "Projections of Number of Returns to be Filed," Document 6149; "Forms 1040, 1040A and 1040EZ by Full-Paid, Other-Than-Full-Paid and Refunds," Document 6187; "Number of Examination Class Returns to be Filed by District," Document 6235; "Fiscal Year Projections of Number of Returns to be Filed," Document 6292; and this document, "Trend Analyses and Related Statistics."

Measures of Projection Error

A projection attempts to predict the state of an item of interest at a future point in time. Though not explicitly stated, most projections are made on a ceteris paribus ("other things being equal") basis; i.e., today's trends are assumed to be tomorrow's trends. This, however, is not always the case. For example, projections made in the early 1970's anticipated neither the international oil crunch nor the rapid inflation of the 1970s and early 1980s. The length of the "baby boom" was also largely unanticipated, as was the ensuing "baby bust." Sound methodology is a necessary antecedent to accurate projections. With sound methodology one can expect to obtain, on average, the best possible projections. This does not, however, preclude the possibility of making inaccurate projections now and then. Conversely, the infrequent but amazingly accurate projection does not necessarily imply sound methodology. Methodology must be based on our knowledge of fundamental economic, social, and demographic interrelationships found in our society. The efficacy of methodology must be confirmed by empirical

accuracy. But to consider one without the other is folly; they must be considered together to be of any value. Statements of methodology, therefore, accompany all of our published projections.

Horse Story

The difficulties of trend extrapolations can be illustrated by sympathizing with an economist in 1920 who was asked to forecast the number of horses in the year 2000. He went to the Statistical Abstract of the United States and determined that the number of horses on farms in the United States had remained constant at about 19 million since 1900. He considered technology, the state of agriculture and several other factors. Then he confidently predicted that the number of horses in 2000 would remain at 19 million. He was wrong--in 1985 there were only 8.5 million horses.

Or was he? The number of horses increased from 3 million in 1960 to 8.5 million in 1985. This is an average increase of slightly over 7 percent per year. If this rate continues, there will be almost 18 million horses in 2000. And there is some speculation that the rate of increase is itself increasing. In reality, there may be 19 million horses in 2000. This, perhaps, is an extreme illustration of the problem of recognizing and predicting trends. It does show that almost any forecast of horses greater than 3 million and less than 20 million (including 19 million) could have been plausable if the appropriate assumptions had been made.

Accuracy Measures

In analyzing projection accuracy, four measures are commonly used. The simplest of these calculates the average level of error, i.e. the projected value minus the actual value. This measure is simple and easy to understand. However, it is difficult to assess the meaning of a projection error of 8.3 billion as in the 1966 projection of personal income for 1970 (in Table 1.). It is also difficult to apply this measure between series of different magnitudes. The calculation for the average level of error (ALE) is:

$$ALE = \sum_{t} (p_t - a_t)/n$$

where p_t is the predicted value of the variable, a_t is the actual value and n is the number of observations.

A variation of this measure which eliminates the dependency on the magnitude of the units computes the error as the percentage by which the projection overstates or understates the actual value. It is much easier to understand the 1966 personal income error as -1.5 percent. The calculation for the average percent error (APE) is:

$$APE = \sum_{t} [100(p_t - a_t)/a_t]/n.$$

Both of these measures have problems when they are aggregated. For example, the 1982 projection made in 1980 for individual returns in the Mid-Atlantic Region had an error of 0.51 percent. The corresponding error for the Southeast Region was -0.52 percent. Aggregation of these two errors results in an error of -0.01 percent. This is not a meaningful measure. A measure that overcomes this problem is the mean absolute error (MAE). MAE is the average difference (ignoring algebraic signs) between projected and realized values. MAE, however, is in the same units as the projection. The calculation for the mean absolute error is:

$$MAE = \sum |p_t - a_t| / n$$

As with the actual error, MAE has its commonly used counterpart in relative terms. This is known as the mean absolute percentage error (MAPE). MAPE is the average absolute difference as a percentage of the projected value. The calculation for MAPE is as follows:

$$MAPE = [\sum 100 |(p_t - a_t) / a_t|] / n$$

Accuracy of Long Range Projections

Selected statistics have been assembled and published annually in Document 6011 since 1966. We hope that this document has served as a convenient source for useful district office economic, demographic and tax return data. In addition to providing annual historical series, projections for selected items have also been provided. Prior to 1972, population and personal income (constant dollars) were included. Since 1974, personal income (current dollars), employment, and selected return filings projections were also included.

The forecast intervals ranged from three to ten years and usually projected "convenient" years in the future. The 1966 and 1967 projections were for 1970, the 1969 and 1970 projections were for 1975, etc. From 1975 through 1979 each issue included series projected for 1985. Since 1974, four economic series--population, personal income (in both current and constant dollars), and employment--have been presented continuously in Document 6011. Two return series--total returns and individual returns--have also been continuously included.

The average projection horizon was about 6.8 years. Accuracy at the U.S. level varied from the 0.01 percent precision of the 1967 projection of personal income for 1970 (3 year projection horizon) to the -23.9 percent error for current dollar personal income projections made in 1974 for 1980 (6 year projection horizon). An evaluation of projections using data for 1985 (estimated from data through September 1985) is shown in Table 1.

A summary of the projection results follows:

	MAE	MAPE (%)
Population	4.0 million	1.7
Personal Income		
Constant Dollars	64.4 billion	7.4
Current Dollars	185.4 billion	7.1
Civilian Employment	6.1 million	5.7
Total Returns	13.1 million	7.7
Individual Returns	5.7 million	5.9

As was previously mentioned, the average projection horizon for Document 6011 has been 6.8 years. The lowest MAPE was for population, 1.7 percent, and the highest was for total returns, 7.7 percent, with the overall average of just under 6 percent. There are some interesting observations possible beyond the observation of generally good accuracy levels. One is that long-range employment projections have a MAPE of 5.7 percent, which is approximately the same as the 5.9 percent MAPE for individual returns. Table 1., however, indicates that the projection errors for employment are all negative (projections were lower than actuals) while those for individual returns were generally positive. Further observation indicates that personal income in constant dollars was consistently overprojected while personal income in current or nominal dollars was underprojected. This leads to the conclusion that inflation has consistently been underestimated and supports the earlier admonitions concerning unanticipated shocks such as oil crises and the assumed continuation of existing trends.

Accuracy of Short Range Projections for the U.S.

Projections of returns to be filed have been made since 1959. These have been for various projection horizons, geographic configurations, and levels of return aggregation. These projections are updated annually and released in Document 6186 and Document 6149. Projections are revised annually or semiannually to include the latest economic and demographic information as well as to update observed trends and changes in filing requirements.

In June 1985, an analysis of results was made for short-range returns projections made during 1982-1984. The analysis at the U.S. level was for all 50 return types, plus the examination class projections for individual, corporation and other returns. [The complete study is available on request from the Research Division.] For this article, an analysis was also made for some of the economic variables used to project returns filed. The analysis for total primary and individual returns is presented here for comparison with long-range projections. Economic projections were analyzed for personal income (current dollars), civilian employment and resident population. A two-year projection horizon was chosen for comparison with the long-range projections.

The difference and the percentage difference between projections and actuals were calculated for the three year period of actual filings from 1982 through 1984. The two summary statistics used were the mean absolute error (MAE) and the mean absolute percentage error (MAPE). Projection accuracy at the United States level for each of the return and economic series (except constant dollar personal income for which projected levels were unavailable) for the two year projection horizon are as follows:

	MAE	MAPE (%)
Population	532 thousand	0.2
Personal Income (current dollars)	119 billion	4.0
Civilian Employment	3.4 million	3.6
Total Primary Returns	1.9 million	1.1
Individual Returns	2.3 million	2.4

Short-range projection results are somewhat different from those computed for the long range. Short-range population projections had the lowest MAPE, 0.2 percent; the next lowest was for total returns, 1.1 percent. This undoubtedly reflects the fact that return types and filing requirements do not change very much in the short range. It is also interesting to note that over the short range, individual return projections were more precise than civilian employment projections. We think that this reflects our efforts to improve district/state projection models in order to better reflect the relationship between return filings and employment.

Accuracy of Short Range State Projections

Short-range projections for states were also computed. This analysis was made for three economic series and two return series. The projections with two-year horizons are presented in Tables 2-6. MAPEs for two years ahead varied from 0.3 to 15.8 percent. MAPEs of 0.3 percent occurred in Virginia, New Jersey, and New York for population, individual returns, and employment. The MAPE of 15.8 percent was for personal income in Wyoming.

The average MAPE for all states was as follows:

	MAPE (%)
Population	1.5
Personal Income, (current dollars)	4.9
Civilian Employment	5.0
Total Primary Returns	2.3
Individual Returns	3.4

Projections for all states were quite good by conventional standards, but there was considerable dispersion. For resident population, which generally had the lowest error, three states--Alaska, Wyoming, and Oregon--had MAPEs above 3 percent. For this same series, seven states--South Carolina, New Jersey, Virginia, West Virginia, Connecticut, Pennsylvania, and Georgia--all had MAPEs below 0.5 percent. At the other extreme, for employment, which generally had the highest error, there were 38 states with MAPEs above 3 percent and only New York with a MAPE below 0.5 percent. Returns filed also had considerable dispersion. For total primary returns, 12 states had MAPEs above 3 percent, and Virginia and Idaho had MAPEs below 0.5 percent. For individual returns, 24 states had MAPEs above 3 percent; only New Jersey had a MAPE below 0.5 percent.

Conclusion

Research Division forecasts are relatively accurate. This is at least partially attributable to the continuing effort to identify and track new trends, to keep abreast of previously identified trends, and to refine models in light of the new information. Short-range projections are generally more accurate than long-range projections as are projections for higher levels of aggregation (national) versus projections at lower levels (states). This is expected. It demonstrates that new information is being effectively incorporated into the projection. Forecasters can easily make larger projection errors when only minor specification errors (assumptions) are made; professional forecasters strive to avoid such situations.

Table 1. Comparison of Long Range Projections Released in Document 6011 With Actuals Projected 1966-1979 for 1970-1985.

Type	Projection Horizon	Projection Level (millions)	Actual Level (millions)	Error Level	Error (percent)
Population	1966-1970	208.2	205.0	3.2	1.56
Personal Income (constant 1954 dollars)		550,000	558,363	-8,363	-1.50
Population	1967-1970	205.2	205.0	0.2	0.10
Personal Income (constant 1958 dollars)		606,658	606,573	85	0.01
Population	1969-1975	218.6	216.0	2.6	1.20
Personal Income (constant 1958 dollars)		749,926	698,740	51,186	7.33
Population	1970-1975	218.6	216.0	2.6	1.20
Personal Income (constant 1958 dollars)		768,041	698,740	69,301	9.92
Population	1971-1980	233.9	227.7	6.2	2.72
Personal Income (constant 1958 dollars)		963,100	837,002	126,098	15.07
Population	1972-1980	229.8	227.7	2.1	0.92
Personal Income (constant 1958 dollars)		963,102	837,002	126,100	15.07
Civilian Employment		98.5	99.3	-0.8	-0.81
Population	1974-1980	223.6	227.7	-4.1	-1.80
Personal Income (constant 1958 dollars)		966,334	837,002	129,332	15.45
Personal Income (current dollars)		1,647,600	2,165,080	-517,480	-23.90
Civilian Employment		98.7	99.3	-0.6	-0.60
Total Returns		133.3	137.2	-3.9	-2.84
Individual Returns		92.6	93.2	-0.6	-0.64
Population	1975-1985	235.0	238.9	-3.9	-1.63
Personal Income (constant 1958 dollars)		1,110,749	977,284	133,465	13.66
Personal Income (current dollars)		2,754,655	3,210,070	-455,415	-14.19
Civilian Employment		105.5	107.4	-1.9	-1.77
Total Returns		146.9	172.4	-25.5	-14.79
Individual Returns		101.5	96.7	4.8	4.96
Population	1976-1985	233.6	239.0	-5.4	-2.26
Personal Income (constant 1958 dollars)		1,036,637	977,284	59,353	6.07
Personal Income (current dollars)		3,202,169	3,210,070	-7,901	-0.25
Civilian Employment		95.2	107.4	-12.2	-11.36
Total Returns		151.5	172.3	-20.8	-12.07
Individual Returns		104.2	96.7	7.5	7.76

Table 2. Resident Population
Results of Short Range Projections
Made in 1981-1982 for 1983-1984

STATES	TWO YEARS IN ADVANCE: MAE	MAPE (percent)
Connecticut	13	0.41
Maine	11	0.95
Massachusetts	40	0.68
New Hampshire	13	1.33
New York	245	1.39
Rhode Island	10	1.01
Vermont	7	1.21
Delaware	5	0.75
Maryland	17	0.34
New Jersey	59	0.77
Pennsylvania	48	0.40
Virginia	16	0.28
Alabama	32	0.81
Arkansas	33	1.38
Florida	103	0.94
Georgia	27	0.47
Louisiana	35	0.76
Mississippi	21	0.81
North Carolina	37	0.60
South Carolina	3	0.08
Tennessee	69	1.45
Indiana	97	1.76
Kentucky	46	1.21
Michigan	157	1.67
Ohio	104	0.96
West Virginia	6	0.31
Illinois	69	0.60
Iowa	29	0.99
Minnesota	51	1.26
Missouri	39	0.79
Montana	6	0.74
Nebraska	27	1.69
North Dakota	11	1.66
South Dakota	12	1.69
Wisconsin	69	1.42
Arizona	80	2.63
Colorado	76	2.44
Kansas	19	0.79
New Mexico	27	1.91
Oklahoma	59	1.81
Texas	203	1.30
Utah	41	2.54
Wyoming	23	4.13
Alaska	53	12.17
California	136	0.53
Hawaii	12	1.18
Idaho	18	1.80
Nevada	27	2.90
Oregon	96	3.43
Washington	105	2.32

Table 3. Personal Income
Results of Short Range Projections
Made in 1981-1982 for 1983-1984.

STATES	TWO YEARS IN ADVANCE: MAE	MAPE (percent)
Connecticut	0.34	0.70
Maine	0.46	3.77
Massachusetts	1.28	1.60
New Hampshire	0.10	0.86
New York	3.21	1.29
Rhode Island	0.61	4.90
Vermont	0.11	1.97
Delaware	0.13	1.67
Maryland	1.14	1.64
New Jersey	1.93	1.77
Pennsylvania	4.25	2.95
Virginia	0.73	1.04
Alabama	1.04	2.69
Arkansas	0.87	3.86
Florida	1.08	0.84
Georgia	1.40	2.19
Louisiana	4.72	9.09
Mississippi	0.78	3.47
North Carolina	1.96	3.09
South Carolina	1.18	3.68
Tennessee	2.22	4.56
Indiana	5.17	7.83
Kentucky	1.75	4.65
Michigan	12.95	10.62
Ohio	9.90	7.33
West Virginia	1.24	6.26
Illinois	11.94	7.40
Iowa	3.15	8.76
Minnesota	1.36	2.60
Missouri	2.39	4.06
Montana	1.35	13.64
Nebraska	0.60	3.13
North Dakota	0.27	3.35
South Dakota	0.17	2.19
Wisconsin	2.25	3.88
Arizona	1.39	4.06
Colorado	0.55	1.33
Kansas	1.25	3.88
New Mexico	0.41	2.85
Oklahoma	2.89	7.12
Texas	11.68	5.71
Utah	0.60	3.78
Wyoming	1.20	15.79
Alaska	0.93	12.41
California	16.41	4.44
Hawaii	0.54	3.97
Idaho	0.89	8.19
Nevada	1.27	9.79
Oregon	3.72	11.01
Washington	4.67	7.81

Table 4. Civilian Employment
Results of Short Range Projections
Made in 1981-1982 for 1983-1984.

STATES	TWO YEARS IN ADVANCE: MAE	MAPE (percent)
Connecticut	41	2.73
Maine	9	2.01
Massachusetts	49	1.80
New Hampshire	6	1.37
New York	22	0.30
Rhode Island	7	1.79
Vermont	5	2.45
Delaware	5	1.74
Maryland	49	2.06
New Jersey	56	1.75
Pennsylvania	145	3.02
Virginia	27	1.18
Alabama	63	4.53
Arkansas	38	4.90
Florida	110	2.75
Georgia	71	3.14
Louisiana	150	8.69
Mississippi	58	6.76
North Carolina	79	3.18
South Carolina	44	3.48
Tennessee	55	3.04
Indiana	111	5.10
Kentucky	61	4.89
Michigan	251	6.98
Ohio	243	5.47
West Virginia	56	8.66
Illinois	339	6.89
Iowa	71	6.45
Minnesota	83	4.46
Missouri	87	4.26
Montana	38	12.29
Nebraska	39	5.89
North Dakota	12	4.54
South Dakota	8	3.47
Wisconsin	113	5.55
Arizona	52	4.68
Colorado	43	3.09
Kansas	72	7.24
New Mexico	20	3.89
Oklahoma	81	6.47
Texas	335	5.09
Utah	23	3.81
Wyoming	34	14.07
Alaska	20	10.50
California	457	4.33
Hawaii	23	5.32
Idaho	28	8.02
Nevada	54	11.58
Oregon	83	7.67
Washington	98	5.69

Table 5. Total Primary Returns
Results of Short Range Projections
Made in 1981-1982 for 1983-1984.

STATES	TWO YEARS IN ADVANCE: MAE	MAPE (percent)
Connecticut	95,379	3.63
Maine	19,225	2.63
Massachusetts	17,705	2.20
New Hampshire	144,858	3.25
New York	228,917	1.78
Rhode Island	19,695	2.80
Vermont	6,422	1.59
Delaware	13,993	3.10
Maryland	45,333	1.24
New Jersey	59,902	1.00
Pennsylvania	109,457	1.33
Virginia	11,779	0.31
Alabama	34,200	1.54
Arkansas	30,571	2.15
Florida	206,578	2.36
Georgia	18,144	0.51
Louisiana	123,176	4.59
Mississippi	35,670	2.52
North Carolina	27,132	0.69
South Carolina	57,346	2.98
Tennessee	56,263	1.96
Indiana	43,771	1.20
Kentucky	22,037	1.00
Michigan	95,389	1.65
Ohio	142,443	1.97
West Virginia	9,979	0.91
Illinois	62,608	0.77
Iowa	11,536	0.52
Minnesota	18,086	0.61
Missouri	47,094	1.33
Montana	5,432	0.86
Nebraska	14,224	1.15
North Dakota	28,358	5.34
South Dakota	9,765	1.88
Wisconsin	54,693	1.59
Arizona	83,104	4.03
Colorado	45,647	1.93
Kansas	48,571	2.62
New Mexico	16,579	1.83
Oklahoma	104,533	4.73
Texas	247,813	2.36
Utah	7,659	0.85
Wyoming	16,044	4.22
Alaska	36,499	10.47
California	598,629	3.17
Hawaii	20,667	2.77
Idaho	2,269	0.35
Nevada	28,146	4.21
Oregon	113,921	5.71
Washington	29,693	0.94

Table 6. Total Individual Returns
Results of Short Range Projections
Made in 1981-1982 for 1983—1984.

STATES	TWO YEARS IN ADVANCE: MAE	MAPE (percent)
Connecticut	72,200	4.89
Maine	9,250	2.15
Massachusetts	12,550	2.67
New Hampshire	51,450	1.97
New York	123,100	1.70
Rhode Island	13,500	3.27
Vermont	9,950	4.61
Delaware	4,300	1.63
Maryland	32,150	1.45
New Jersey	12,050	0.34
Pennsylvania	101,500	2.08
Virginia	43,300	1.89
Alabama	52,450	3.73
Arkansas	41,450	5.05
Florida	64,900	1.41
Georgia	70,250	3.16
Louisiana	72,200	4.47
Mississippi	41,600	4.80
North Carolina	55,600	2.33
South Carolina	65,700	5.43
Tennessee	79,800	4.46
Indiana	80,150	3.68
Kentucky	36,000	2.75
Michigan	126,200	3.56
Ohio	237,850	5.46
West Virginia	21,250	3.20
Illinois	168,450	3.54
Iowa	26,300	2.26
Minnesota	47,250	2.74
Missouri	13,400	0.68
Montana	4,650	1.38
Nebraska	8,300	1.25
North Dakota	5,150	1.84
South Dakota	4,250	1.53
Wisconsin	77,250	3.97
Arizona	27,100	2.25
Colorado	24,000	1.75
Kansas	17,100	1.72
New Mexico	19,650	3.58
Oklahoma	50,100	3.94
Texas	216,050	3.43
Utah	19,050	3.41
Wyoming	18,000	8.61
Alaska	27,050	11.69
California	273,050	2.55
Hawaii	11,300	2.53
Idaho	7,400	2.05
Nevada	33,650	8.18
Oregon	103,950	9.57
Washington	51,650	2.89

Publications Available on Return Projections

Document Number	Title
6149	Number of Returns to be Filed, Districts (Rev. 10-85)
6186	Number of Returns to be Filed, United States, Regions and Service Center Areas (Rev. 9-85)
6187	Forms 1040, 1040A and 1040EZ by Full-Paid, Other-Than-Full-Paid and Refunds, United States and Service Center Areas (Rev. 5-85) and (Rev. 9-85)
6235	Number of Examination Class Returns to be Filed by District: Individual, Partnership, Corporation and Estate (Rev. 11-85)
6292	Fiscal Year Projections of Returns to be Filed, United States (Rev. 4-85) and (Rev. 8-85)
6961	Information and Withholding Documents, United States and Service Center Areas (Rev. 3-85)

These publications may be obtained by writing to:

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